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Research Update:

Dutch Development Bank FMO 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable

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Overview

- We equalize our ratings on Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) with the sovereign ratings on The Netherlands, reflecting our opinion that there is an almost certain likelihood that the Dutch government would provide FMO with timely and sufficient extraordinary support if needed.
- Consequently, we are affirming our 'AAA/A-1+' ratings on FMO.
- The stable outlook on FMO reflects that on The Netherlands and our expectation that the 1998 agreement with the Dutch state regarding its relationship with FMO will remain in force.

Rating Action

On Nov. 29, 2017, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on Dutch development finance institution and government-related entity Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO). The outlook is stable.

Rationale

We equalize our ratings on FMO with those on The Netherlands (unsolicited, AAA/Stable/A-1+), reflecting our opinion that there is an almost certain likelihood that the Dutch government would provide timely and sufficient extraordinary support to FMO in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our rating approach factors in our view of FMO's:

- Critical role as the key government vehicle for promoting private-sector growth in developing countries, an important public policy goal in The Netherlands; and
- Integral link with the Dutch government. The ratings reflect the 51% government ownership of and strong support for FMO, based on the government's obligation to maintain FMO's operations, its liquidity injections, and its commitment to preserve FMO's solvency, as well as a track record of such support.

Established in 1970, FMO is a public-private development bank. Its majority shareholder is the Dutch government (51%). The rest of the shares are held by large Dutch banks (42%) and employers' associations, trade unions, and individual investors (7%).

The 1998 agreement between FMO and the government formally codified sovereign support to FMO. The duration of the agreement is indefinite and its termination requires 12 years' notice by either party. Under Article 8 (financial security obligation) of the agreement, the government is legally required to enable FMO to meet its obligations, including funding raised in capital markets, on time. The agreement aims to provide financial support so that no situations arise in which FMO is unable to meet certain of its commitments on time. FMO's creditors have no direct recourse to the Dutch government. Instead, the government has an obligation to FMO.

The Netherlands' long-term commitment to, and support of, FMO is also demonstrated by the sovereign's obligation in most circumstances to safeguard the company's solvency (Article 7 of the agreement - maintenance obligation). Article 7 states that the Dutch government is committed to covering all losses from operations that cannot be covered by general or specific provisioning and reserves. We understand that although the government does not explicitly guarantee FMO's individual obligations, it views its maintenance guarantee on FMO's operations as equivalent to an explicit guarantee. Discussions are ongoing between the Dutch state and its related entities regarding payment for guarantees. If FMO has to pay for its guarantee from the state, we think it would strengthen the explicit character of the guarantee.

FMO supports business and financial institutions in developing countries by providing capital and skills, which is part of the general policy of The Netherlands' Ministry of Development Cooperation, and therefore qualifies as a strategically important activity. It does so by arranging loans (€4.5 billion net loans outstanding as of end-2016), equity investments (€1.8 billion), 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. Government funds represented about 12% of FMO's total assets as of end-2016. FMO manages the following government funds that finance high-risk projects in developing countries:

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

Finally, in 2017, the government announced a new financing institution--Invest-NL--to enable Dutch companies to secure market financing for those projects that are deemed too risky for the market to finance sufficiently. Invest-NL is expected to be incorporated in 2019. The government intends that FMO and Invest-NL will enter into a joint venture to combine financing and support the international operations of Dutch businesses.

Under FMO's revised dividend policy, the shareholders, including the government, may now take an increased dividend of up to 100% of distributable profit (about 5% of total profit), compared with 40%-60% previously. FMO's 2016 net profits increased slightly to €176 million, from €174 million in 2015, mainly due to valuation adjustments on loans and equity investment and associates. At €216 million, and representing more than two-thirds of total revenues, net interest income declined by 5% in 2016 compared with 2015. This slight deterioration reflects the lower interest income received by FMO on its investments. Nevertheless, based on FMO's track record of managing emerging market risks, we expect that it will remain profitable, despite what we consider to be uncertain global economic growth conditions.

In 2014, FMO received its full banking license from De Nederlandsche Bank, the Dutch central bank, further improving its access to the international capital markets and widening its financing options. FMO can now fully benefit from any emergency monetary policy measures that the European Central Bank (ECB) adopts. Moreover, within the ECB's Public Sector Purchase program (PSPP), launched in March 2015, securities issued by FMO became eligible for the Eurosystem's expanded asset purchase at an early stage of the program's implementation. In our view, the inclusion of FMO's securities did not have a significant impact on its already favorable borrowing conditions, partly because slightly more than a third of the funding portfolio is denominated in euros. Nevertheless, we think that including FMO's securities into the ECB's PSPP benefits its funding options. FMO is subject to the Bank Recovery and Resolution Directive, as implemented under Dutch law, with the competent resolution authority being the Dutch central bank.

We assess FMO's creditworthiness as being linked to that of the sovereign. We don't assess FMO's stand-alone credit profile because we view the likelihood of extraordinary government support as almost certain. As such, we consider that the likelihood of government support is not subject to transition risk.

Outlook

The stable outlook on FMO mirrors that on The Netherlands and also reflects our expectation that the 1998 agreement with the Dutch state regarding its support of FMO will remain in force.

If we receive new information that would lead us to reassess FMO's integral link with and critical role for the Dutch government, in turn prompting us to adopt a view of a lower probability of extraordinary government support, we could lower our long-term rating on FMO to below that on The Netherlands.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Research Update: State of The Netherlands Ratings Affirmed At 'AAA/A-1+'; Outlook Stable - November 17, 2017
- Research Update: Dutch Development Bank FMO L-T Rating Raised To 'AAA' After Similar Sovereign Action; Outlook Stable - November 25, 2015

Ratings List

	Rating	
	To	From
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.		
Issuer Credit Rating		
Foreign and Local Currency	AAA/Stable/A-1+	AAA/Stable/A-1+
Senior Unsecured		
Foreign and Local Currency	AAA	AAA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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