

RatingsDirect®

Research Update:

Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden 'AAA' Ratings Affirmed; Outlook Negative

Primary Credit Analyst:

Benjamin J Young, London (44) 20-7176-3574; benjamin.young@standardandpoors.com

Secondary Contact:

Kyran A Curry, London (44) 020-7176-7845; kyran.curry@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden 'AAA' Ratings Affirmed; Outlook Negative

Overview

- Our ratings on development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) reflect its critical role and integral link with the Dutch government.
- We are therefore affirming our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on FMO.
- The negative outlook reflects the outlook on the long-term sovereign rating on the State of the Netherlands.

Rating Action

On Oct. 31, 2013, Standard & Poor's Ratings Services affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO). The outlook is negative.

Rationale

The ratings on FMO are equalized with the ratings on The Netherlands, 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, 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 between the government and FMO. The ratings reflect the company's 51% government ownership and strong sovereign support--including the operating maintenance obligation, liquidity provisions, and solvency commitment. The government also has a track record of lending support to FMO.

Sovereign support was formally codified in the 1998 agreement between FMO and the state. Under Article 8 of the agreement, the state is legally required to enable FMO to meet its obligations on time, and is a key liquidity provider.

The duration of the agreement is indefinite and its termination requires 12 years' notice by either party. 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). We understand that the state provides a maintenance guarantee on FMO's operations. Accordingly, FMO's creditors have no direct recourse to the Dutch government; rather, the government's obligation is to FMO.

FMO supports businesses and financial institutions in developing countries by providing capital and skills. It does so by arranging loans (€2.9 billion net loans outstanding at June 30, 2013), investing in private equity (€973 million as of June 30, 2013), providing guarantees, and other investment promotion activities. In addition, FMO manages several off-balance-sheet development funds on behalf of, and at the risk of, the Dutch government: these were approximately 10% of FMO's total assets at the end of June 2013.

The Dutch government has apportioned an additional €140 million to FMO over 2013, highlighting FMO's importance in achieving government development policy. FMO's dividend policy has also changed slightly; the government may now take an increased dividend of up to 100% of distributable profit (about 5% of total), compared with 40%-60% previously. We view this as a reflection of the significant capital provided to FMO by the government. However, we do not expect the effective dividend payout ratio to change in the coming years.

FMO's net profit was €146 million in 2012, an increase over €93 million in 2011. The improvement was mainly the result of improved income on equity investments and lower provisioning. Net interest income, the most significant component (nearly 60%) of FMO's revenues, grew slightly over 2011 figures. However, we continue to expect the operating environment, particularly with regards to equity investments, to remain challenging. Where FMO has been able to exit equity positions, they have continued to yield less than before the crisis, despite robust emerging market growth.

Investment fund participations grew by nearly 20% over 2012--but funds typically do not invest over their first few years, which therefore depresses related revenue. Looking ahead, we expect that FMO's on-balance-sheet growth will remain steady, in the region of 5%-7% per year. This is in line with management's expectations, albeit tempered slightly by some likely deterioration in asset quality (nonperforming loans are at about 4%). We expect fee revenue to increase from current levels (8% of total income) as FMO pursues more ambitious off-balance-sheet growth. Given the nature of its business and the high level of equity and mezzanine financing, we view FMO's financial results as moderately volatile. Based on FMO's track record of managing emerging market risks, we expect that the company will remain profitable.

Shareholder equity remained strong at 33% of total assets. We expect that FMO will meet its 2014 maturities of €1.4 billion, slightly higher than average, through further diversifying bond issuance.

Outlook

The negative outlook on FMO reflects that on The Netherlands. Given the current cross-party consensus, Standard & Poor's expects FMO to continue to play a critical role in the Dutch government's economic development plans and policies regardless of the government's composition.

Should we receive new information that would lead us to reassess FMO's integral link and critical role with respect to the Dutch government, we could lower the rating to below that on The Netherlands.

Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Ratings Affirmed

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	
Sovereign Credit Rating	AAA/Negative/A-1+
Senior Unsecured	AAA

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

McGRAW-HILL