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Research Update:

Dutch Development Bank FMO L-T Rating Raised To 'AAA' After Similar Sovereign Action; Outlook Stable

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Overview

- On Nov. 20, 2015, we raised our long-term rating on The Netherlands to 'AAA' on stronger-than-expected economic growth prospects, affirmed the 'A-1+' short-term rating, and assigned a stable outlook.
- We equalize our issuer credit ratings on Dutch development bank FMO with the sovereign rating, reflecting our opinion that there is an almost certain likelihood FMO would receive timely and sufficient extraordinary support from the Dutch government.
- We are therefore raising our long-term ratings on FMO to 'AAA' from 'AA+' and affirming our 'A-1+' short-term rating, reflecting a similar action on the Netherlands.
- The stable outlook reflects that on The Netherlands and also reflects our expectation that the 1998 agreement with the Dutch state will remain in force for the foreseeable future.

Rating Action

On Nov. 25, 2015, Standard & Poor's Ratings Services raised its long-term issuer credit rating on Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), the Dutch development bank, to 'AAA' from 'AA+' and affirmed the 'A-1+' short-term issuer credit rating. The outlook is stable.

Rationale

The upgrade to 'AAA' from 'AA+' reflects our similar action on The Netherlands (Unsolicited ratings; AAA/Stable/A-1+) on Nov. 20, 2015 (see "Research Update: Long-Term Ratings On The Netherlands Raised To 'AAA' On Stronger-Than-Expected Economic Growth Prospects; Outlook Stable," published on RatingsDirect). In accordance with our criteria for rating government-related entities (GREs), we believe that there is an almost certain likelihood that FMO would receive timely and sufficient extraordinary support from the Dutch government in the event of financial distress. As a result, we equalize the long-term issuer credit rating on FMO with that on The Netherlands.

In accordance with our criteria for 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 sovereign support for FMO, based on the government's maintenance obligation on FMO's operations, its liquidity injections, and its

commitment to preserve FMO's solvency, as well as a track record of such support.

The 1998 agreement between FMO and the government formally codified sovereign support to FMO. Under Article 8 of the agreement, the government is legally required to enable FMO to meet its obligations on time by providing liquidity. 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, 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. FMO's creditors have no direct recourse to the Dutch State. Rather, the government's obligation is to FMO. In the context of the assessment of the likelihood of extraordinary state support, it is important to note that the Dutch State has an interest of more than 90% of shareholder's equity, due to the fact that it is entitled to a major part of FMO's reserves. Moreover,we believe that the ongoing privatization of ABN AMRO, one of FMO's shareholders, will not have any impact on FMO's governance or operations.

FMO supports businesses 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 (€4.2 billion net loans outstanding on June 30, 2015), equity investments (€1.4 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: these represented slightly more than 9% of FMO's total assets on June 30, 2015.

FMO manages the following government funds: financing of Dutch small and midsize enterprises (SMEs) that invest in developing countries; a fund reaching out to SMEs via financial institutions (MASSIF); earmarked funds for infrastructure projects in low-income countries (IDF); a fund financing energy projects (AEF); and capacity development (CD). The latter enables targeted access to know-how, bundled to meet a company's full organizational needs, is financed by the Dutch Ministry for Development Cooperation, and stimulates technical cooperation between developing country companies and enterprises in industrialized nations. The Dutch government allocated additional funds to FMO in 2013, highlighting FMO's importance in achieving government development policy.

According to FMO's 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. Between 2007 and 2013, FMO retained on average about 97% of its annual profits as capital. FMO's 2014 net profitability declined slightly versus 2013's, to €124 million, mainly due to higher value adjustments. Net interest income, the most significant component of FMO's revenues, representing almost two-thirds of total revenues, grew significantly in 2014, compared with one year earlier, and has fared well so far this year, too.

In 2015, we expect FMO's operating environment, particularly with regard to income on equity investments, to be challenging, given the ongoing slowdown in emerging sovereigns' economic growth prospects, including of China, as well as due to the implications of the Russian ruble crisis for Central Asian economies. We believe this is only partly reflected in first-half 2015 results, with income from equity investments, including dividend income, standing at €22.1 million for the first six months of 2015, against €72 million in full-year 2014.

The main reason for such a decline is the lower number of sales of equity holdings. The observed deterioration in asset quality from 6.8% of total loans at the end of 2014 to 7.4% in June 2015 is mainly due to increased loan provisioning. Given the nature of its business and the high level of equity and mezzanine financing, FMO's financial results are fairly volatile, in our opinion, especially in an uncertain world growth environment. Based on FMO's track record of managing emerging market risks, we expect that the company will remain profitable, despite what we consider to be a weakening of current global economic growth conditions.

In 2014, FMO received the full banking license it had applied for from the Dutch Central Bank, further improving its access to the international capital markets and widening its financing options. FMO can now fully benefit from emergency monetary policy measures that the European Central Bank (ECB) adopts. More recently, in the context of the ECB's Public Sector Purchase Program (PSPP), triggered in March this year, securities issued by FMO became eligible for the Eurosystem's expanded asset purchase at an early stage of the program's implementation. It is estimated that the inclusion of the FMO's securities did not have a significant impact on its already favorable borrowing conditions, partly explained by the fact that slightly more than a third of the funding portfolio is denominated in eruo. Nevertheless, we believe that the inclusion of the FMO's securities into the ECB's PSPP benefits its funding options.

Outlook

The stable outlook on FMO mirrors that on The Netherlands and also reflects our expectation that the 1998 agreement with the Dutch state will remain in force for the foreseeable future.

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 leading to an assessment of a lower probability of extraordinary government support, we could lower the long-term rating to below that on The Netherlands.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For

Corporate, Insurance, And Sovereign Issuers - May 07, 2013

Related Research

- Research Update: Long-Term Ratings On The Netherlands Raised To 'AAA' On Stronger-Than-Expected Economic Growth Prospects; Outlook Stable - November 20, 2015
- Research Update: Dutch Development Finance Institution FMO Outlook Now Positve On Similar Sovereign Action; Affirmed At 'AA+/A-1+' - May 26, 2015

Ratings List

	Rating	
	To	From
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.		
Sovereign credit rating		
Foreign and Local Currency	AAA/Stable/A-1+	AA+/Positive/A-1+
Senior Unsecured		
Foreign and Local Currency	AAA	AA+
Commercial Paper		
Local Currency[1]	A-1+	A-1+

[1] Dependent Participant(s): Netherlands (State of The)

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.

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