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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 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, along with our expectation that the 1998 agreement with the Dutch state regarding its relationship with FMO will remain in force for the foreseeable future.

Rating Action

On Nov. 23, 2016, 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 (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 (GRE), 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.

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. Article 7 states that the Dutch government is committed to cover losses from operations that cannot be covered by general reserves. 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. To this end, the 1998 agreement also 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. Rather, the government's obligation is to FMO. Moreover, we think that the ongoing privatization of ABN AMRO, one of the FMO's shareholders, will not have any impact on FMO's governance or operations.

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 (€4.3 billion net loans outstanding on June 30, 2016), equity investments (€1.6 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 13% of FMO's total assets as of June 30, 2016.

FMO manages the following government funds: financing of Dutch small and midsize enterprise (SMEs) that invest in developing countries; a fund reaching out to SMEs via financial institutions (MASSIF); financing of funds earmarked for infrastructure projects in low-income countries (IDF); a fund financing energy projects (AEF); and financing of capacity development (CD). The CD financing enables targeted access to know-how, bundled to meet a company's full organizational needs, and is financed by the Dutch Ministry for Development Cooperation. It also stimulates technical cooperation between companies in developing countries and enterprises in industrialized nations. The Dutch government allocated additional funds to FMO in 2013, highlighting FMO's importance in achieving government 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. FMO's 2015 net profits climbed to €174 million, versus €124 million in 2014, mainly due to a hefty increase in equity investments. Net interest income, representing almost two-thirds of total revenues, grew significantly in 2015, and this brisk growth has continued so far this year. According to the FMO's 2016 interim report, net profit in the first half of 2016 reached almost €57.0 million, lower than €97.5 million in the first half of 2015, mainly due to higher value adjustments on the loan portfolio. Still, based on FMO's track record of managing emerging market risks, especially in the current context of increased uncertainty, we expect that the company 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 emergency monetary policy measures that the European Central Bank (ECB) adopts. More recently, 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. We estimate that the inclusion of FMO's securities did not have a significant impact on its already favorable borrowing conditions, which is partly explained by the fact that slightly more than a third of the funding portfolio is denominated in euro. Nevertheless, we think that including FMO's securities into the ECB's PSPP benefits its funding options. Lastly, 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.

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 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 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: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013

Related Research

- The Netherlands 'AAA/A-1+' Ratings Affirmed, Outlook Stable - November 18, 2016
- 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
Commercial Paper		
Local Currency[1]	A-1+	A-1+

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

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.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site 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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