

# RatingsDirect®

---

## Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

**Primary Credit Analyst:**

Remy Carasse, Paris (33) 1-4420-6741; [remy.carasse@spglobal.com](mailto:remy.carasse@spglobal.com)

**Secondary Contacts:**

Marko Mrsnik, Madrid (34) 91-389-6953; [marko.mrsnik@spglobal.com](mailto:marko.mrsnik@spglobal.com)

Federico Loreti, Paris + 33140752509; [federico.loreti@spglobal.com](mailto:federico.loreti@spglobal.com)

### Table Of Contents

---

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

# Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

## Issuer Credit Rating

AAA/Stable/A-1+

## Major Rating Factors

### Strengths:

- Almost certain likelihood of government support in the event of financial distress.
- The state's maintenance obligation and guarantee of FMO's financial commitments.
- A historically strong financial profile.

### Weaknesses:

- 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. This reflects S&P Global Ratings' expectation that the 1998 agreement with the Dutch government regarding state support of FMO will remain in force.

### Downside scenario

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 long-term rating on FMO to below that on the Netherlands.

## Rationale

*We equalize our ratings on FMO with those on the Netherlands (unsolicited, AAA/Stable/A-1+).* This is because, 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. Moreover, we do not assess FMO's stand-alone credit profile 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, an important 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 FMO.

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



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

**The 1998 agreement between FMO and 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 rest of shares held by large Dutch banks (42%), alongside employers' associations, trade unions, and individual investors (7%). The duration of the 1998 agreement is indefinite and its termination by either party requires 12 years' notice. Under Article 8 (financial security obligation) of the agreement, the Dutch government is legally required to enable FMO to meet its obligations on time, including funding raised in capital markets. The agreement aims to provide financial support so that no situations arise in which FMO is unable to meet its commitments on time. FMO's creditors have no direct recourse to the Dutch government. Instead, the government has an obligation to FMO.

**The government has demonstrated its strong commitment to FMO.** 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. 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 (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 discussions are still ongoing between the Dutch government and its related entities regarding payment for guarantees. If FMO eventually 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.** FMO provides institutions in developing 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 (€4.8 billion outstanding as of June 30, 2019), equity investments (€1.9 billion as of June 30, 2019), 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 12.9% of FMO's total assets at year-end 2018. 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: long-term financing of funds earmarked for infrastructure projects in low-income countries; and
- AEF: a fund financing energy projects.

**FMO also plays a key role in the government's sustainable development initiatives.** Recently, 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, WWF (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 the wider national policy objectives and its direct partnership with the government. Moreover, in line with the Dutch government's policy objectives toward the U.N.'s sustainable development goals (SDGs), FMO allocated €1.87 billion of new commitments in 2018 to investments related to SDG 8 (decent work and economic growth), SDG 10 (reduced inequalities), and SDG 13 (climate action).

**Subsidiary NedLinX B.V. finances Dutch SMEs international activities.** In 2017, FMO established NedLinX B.V., a 100% subsidiary focusing on financing Dutch small and midsize enterprises (SMEs) investing abroad. NedLinX integrates the activities of FMO's domestic business. In our view, the creation of NedLinX strengthens the economic policy role FMO plays for the Dutch government by supporting Dutch business activities in emerging markets. NedLinX is expected to enter into a partnership with Invest-NL, a new financing institution created by the Dutch government that we expect will start operating in 2020. Invest-NL will consist of a project development unit and an investment unit, investing in companies and projects that are unable to attract sufficient financing from the market because of the uncertainty of returns or long payback period for the investments.

**Changes in accounting, exchange rates, and equity values led to a drop in reported profit in 2018.** FMO's net profits decreased to €151 million in 2018 from €255 million in 2017. This is partly due to pressure on the private equity portfolio, fluctuations in the euro to U.S. dollar exchange rate, and the implementation of International Financial Accounting Standard No. 9 (IFRS 9). IFRS 9 affects the results from private-sector equity investments, since it requires the recording of fair-value changes. However, FMO's net income increased by 0.5% to €201 million in 2018 compared with 2017. In the first half of 2019, FMO showed a further increase of net interest income to €104 million compared with €99 million in the first half of 2018. Net profit in June 2019 declined to €58 million compared with €124 million in June 2018, still reflecting a rise in the euro-dollar exchange rate and the new accounting policy.

**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 European Central Bank (ECB) adopts. Moreover, within the ECB's public-sector purchase program (PSPP), securities issued by FMO remain eligible for the Eurosystem's expanded asset purchase. 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Netherlands, Nov. 15, 2019

### Ratings Detail (As Of December 6, 2019)\*

#### Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
<i>Foreign Currency</i>	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

Copyright © 2019 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

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 acknowledgment 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 acknowledgment 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 non-public 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](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.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](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.