

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

December 19, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Almost certain likelihood of Dutch government support in the event of financial distress.

Key government vehicle for promoting private-sector growth in emerging economies.

Formal agreement with the state, which has a maintenance obligation on its operations and a financial security obligation on its commitments.

Key risks

Activity primarily focused on emerging markets.

Sensitivity to foreign currency movements as a large part of its private equity portfolio is denominated in U.S. dollars.

PRIMARY CONTACT

Remy Carasse
Paris
33-14-420-6741
remy.carasse
@spglobal.com

SECONDARY CONTACT

Adrienne Benassy
Paris
33-144206689
adrienne.benassy
@spglobal.com

CONTRIBUTOR

Salvador Rodriguez mencia
Paris
33-144206679
salvador.rodriguez
@spglobal.com

Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) promotes private-sector growth in developing and emerging economies, a public-policy goal in the Netherlands. FMO provides private-sector institutions in developing and emerging countries with financial support, capital, and skills. This forms part of the general policy of the Netherlands' Ministry of Development Cooperation. FMO arranges loans, equity investments, guarantees, and other investment promotion activities. It also manages several off-balance-sheet development funds on behalf of, and at the risk of, the Dutch government.

The Netherlands' long-term commitment to, and support of FMO is demonstrated by the sovereign's obligation to safeguard the company's solvency. Under Article 7 (Maintenance Obligation) of the agreement between the Dutch state and FMO, the government is committed to covering all losses from operations that cannot be covered by provisioning and reserves. In accordance with Article 8 (Financial Security Obligation), the government is committed to preventing situations in which FMO is unable to meet its commitments--among others, funding raised in capital markets--on time.

S&P Global Ratings expects FMO to report a net profit in 2022, despite deterioration in the macroeconomic conditions. The expected economic recovery after the lifting of pandemic restrictions was overshadowed by the adverse impact of the war in Ukraine. The conflict had a substantial effect on FMO's operating conditions in terms of investment activity and asset quality. This was offset

by the appreciation of the U.S. dollar, which led to significant gains in FMO's private equity portfolio this year. Three-quarters of FMO's portfolio is dollar-denominated. It booked a net profit of €102 million in first-half 2022.

Outlook

The stable outlook on FMO mirrors that on the Netherlands (unsolicited; AAA/Stable/A-1+). This reflects our expectation that the formal agreement with the Dutch government regarding state support of the entity will continue.

Downside scenario

We would lower our ratings on FMO following a similar rating action on the Netherlands. We could also lower our ratings on FMO to below those on the Netherlands in the unlikely event that we reassessed the entity's integral link with and critical role for the Dutch government, and therefore saw a lower probability of extraordinary government support.

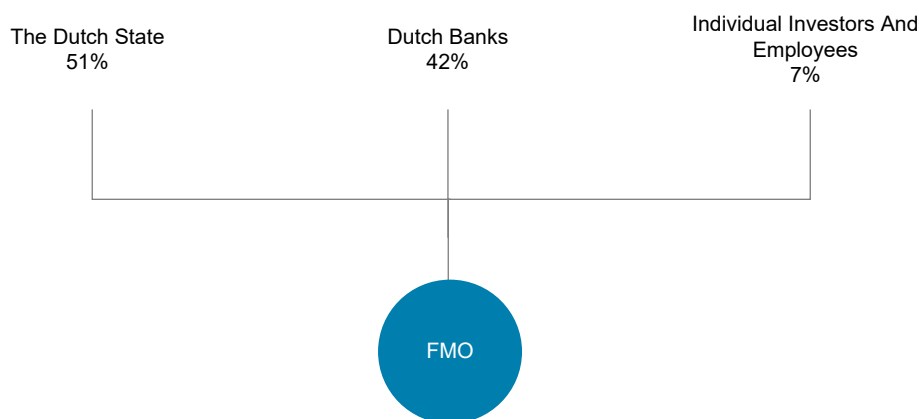
Rationale

We equalize our ratings on FMO with those on the Netherlands. Based on our view of the entity'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.

Our view of almost certain government support for majority state-owned FMO reflects the bank's:

- Critical role as the key government vehicle for promoting private-sector growth in developing countries, a 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 formal obligation to maintain FMO's operations, its liquidity injections, and commitment to preserve FMO's solvency.

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



Source: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
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The 1998 agreement with 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 remaining shares held by large Dutch banks (42%), alongside employers' associations, trade unions, and individual investors (7%). 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. Under Article 7 of the agreement (Maintenance Obligation) of the agreement, the Dutch state is committed to covering all losses from operations that cannot be covered by general or specific provisioning and reserves. In accordance with Article 8 (Financial Security Obligation), the Dutch state is committed to preventing situations in which FMO is unable to meet its commitments--among others, funding raised in capital markets--on time. However, FMO's creditors have no direct recourse to the Dutch government. Instead, the government has an obligation to FMO. We understand that, although the state does not explicitly guarantee FMO's individual obligations, it views its maintenance and financial obligations as equivalent to a statutory guarantee. The agreement's termination by either party requires 12 years' notice.

FMO supports private-sector business and financial institutions in developing and emerging markets by providing financial support, capital, and skills. It focuses on the energy sector, financial institutions, and agribusiness, food, and water industries. 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, equity investments, 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. FMO manages government funds that finance high-risk projects in developing countries, such as:

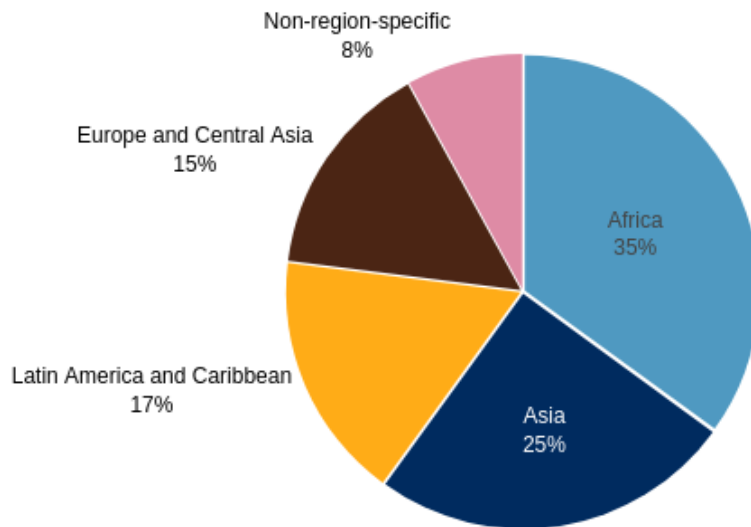
- MASSIF: A fund aiding the development of micro, small, and midsize enterprises via financial institutions;
- Building Prospects: The long-term financing of funds earmarked for infrastructure projects in low-income countries;
- AEF: A fund financing energy projects; and
- The Dutch Fund for Climate and Development.

FMO plays a key role in the government's sustainable development initiatives. In October 2021, the entity's new joint venture with the government, Invest International, became fully operational. FMO holds 49% of shares in Invest International, with the Dutch state holding 51%. Invest International has taken over the team, activities, and portfolio of FMO's former subsidiary, NL Business. Its purpose is to finance Dutch-based companies' international activities abroad and, ultimately, to carry out the government's sustainable development goals. Invest International offers financing from its own share capital, as well as from government funds that are accessible to Dutch start-ups, small and midsize enterprises, and public infrastructure projects. We view this partnership as renewed evidence of the crucial role FMO plays in the government's domestic and international policy objectives.

Since 2019, FMO has been the lead organization that manages the Dutch Fund for Climate and Development (DFCD) on behalf of the Dutch Ministry of Foreign Affairs. It works in partnership with SNV Netherlands Development Organisation, World Wide Fund for Nature, and Climate Fund Managers. DFCD enables private sector investment in projects aimed at climate adaptation and mitigation in developing countries. We see this as further evidence of the critical public-policy role FMO plays with respect to wider national policy objectives and its direct partnership with the government. In first-half 2022, in line with the Dutch government's policy objectives toward the U.N.'s sustainable development goals (SDGs), the entity's total committed portfolio reached €12.9 billion for decent work (labor market conditions that respect workers' fundamental rights and their safety) and economic growth (Sustainable Developments Goal (SDG 8), €4.3 billion for reducing inequalities (SDG 10), and €4.3 billion for supporting climate action (SDG 13).

Although the appreciation of the U.S. dollar led to significant gains in FMO's private equity portfolio, the war in Ukraine hindered the economic recovery. In first-half 2022, FMO booked a net profit of €102 million, compared with €198 million in the same period in 2021. FMO's private equity exposure to Ukraine is currently valued at €67.6 million less than before the Russian invasion. The war in Ukraine explains most of the increase in nonperforming loans in the first half of the year, to 11.1%, from 9.5%. We consider FMO's exposure to economies where political tensions are significant, such as Turkiye, Sri Lanka, and Myanmar, to be a source of additional risks. At the same time, the U.S. dollar's appreciation led to significant gains in its U.S. dollar-denominated private equity portfolio. About three-quarters of the portfolio is U.S. dollar-denominated, which makes it sensitive to exchange rate movements and places FMO in a favorable position, given the current currency market context. Overall, FMO appears to be well-capitalized and has a total capital ratio of 24.6%. This represents a 90 basis-point increase from 2021 and occurred because shareholder's equity grew more strongly than risk-weighted assets.

FMO's Total Committed Portfolio By Region



As of Dec. 31, 2021. Source: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO).

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 programs (PSPP), securities issued by FMO are eligible for the Eurosystem's expanded asset purchases. Although the inclusion of FMO's securities does not have a significant impact on its already-favorable borrowing conditions, partly because only just over one-third of the funding portfolio is denominated in euros, 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

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Netherlands, Oct. 24, 2022
- Sovereign Risk Indicators, Dec. 12, 2022

Ratings Detail (as of December 15, 2022)*

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.

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