FitchRatings

Public Finance
Government-Related Entities
Netherlands

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Fitch Ratings views Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) as a government-related entity (GRE) of the Netherlands (AAA/Stable) and equalises FMO's ratings with those of the sovereign.

Key Rating Drivers

Support Score Assessment is 'Virtually Certain'

Under Fitch's *Government-Related Entities Rating Criteria*, the Support Score is 'Virtually Certain'. We expect the rating of FMO to be derived from its credit linkage to the Netherlands. This assessment is driven by the scoring below.

Responsibility to Support: 15 points, derived from 'Strong' decision-making and oversight and 'Very Strong' responsibility of support assessments.

Incentive to Support: 30 points, derived from 'Strong' preservation of government policy role and 'Very Strong' contagion risk assessments.

Operating Performance

FMO remained profitable in 2023, while its funding costs are low. FMO's loan portfolio stabilised by end-2023 as well as impaired loans. FMO's total assets increased by 4% in 2023, after 6% growth in 2022, on continued growth of its loan portfolio.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Local Currency	
Long-Term IDR	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Debt Ratings	
Senior Unsecured Debt - Long-Term Rating	AAA
Senior Unsecured Debt - Short-Term Rating	F1+
Subordinated Long-Term Rating	AA+

Issuer Profile Summary

FMO is the Dutch development bank created in 1970, and focuses mostly on supporting the private sector in emerging markets. Its bonds benefit from an explicit guarantee from the Dutch state through a keep-well agreement.

Financial Data Summary

(EURm)	FY22	FY23
Interest revenue	351	533
Net interest income	235	222
Net profit (loss)	1	65
Total assets	9,900	10,283
Total debt	5,707	6,232
Net interest income/earning assets (%)	3.2	3.0
Long-term debt/total equity and reserves (%)	161.6	172.5

Source: Fitch Ratings, FMO

Applicable Criteria

Public Policy Revenue-Supported Entities Rating Criteria (January 2024)

Government-Related Entities Rating Criteria (July 2024)

Related Research

Netherlands (April 2022)

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Rating Synopsis

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. Rating Derivation

Summary	
Government LT IDR	AAA
GRE Standalone Credit Profile (SCP)	No SCP
Support category	Virtually certain
Notching expression	Equalised
Single equalisation factor	No
GRE LT IDR	AAA
GRE Key Risk Factors and Support Score	
Responsibility to support	15
Decision making and oversight	Strong
Precedents of support	Very Strong
Incentives to support	30
Preservation of government policy role	Strong
Contagion risk	Very Strong
Support score	45 (max 60)
Standalone Credit Profile	
Risk profile	-
Revenue risk	-
Expenditure risk	-
Liabilities and liquidity risk	-
Financial profile	-
Qualitative factors adjustments	-
GRE SCP	No SCP

Distance \ Support score	>=45	35-42.5	30-32.5	20-25	15	12.5	<=10
-5	0	-1	-2	+2	+1	S-A	S-A
-6	0	-1	-2	+3	+2	+1	S-A
-7	0	-1	-2	+4	+2	+1	S-A
-8	0	-1	-2	+4	+3	+1	S-A
-9	0	-1	-2	+5	+3	+1	S-A
-10	0	-2	-3	+5	+3	+1	S-A
-11	-1	-2	-4	+5	+3	+1	S-A
-12	-1	-3	-4	+5	+3	+1	S-A
-13	-2	-3	-5	+5	+3	+1	S-A
-14	-2	-3	-5	+5	+3	+1	S-A
-15	-2	-3	-5	+5	+3	+1	S-A
No SCP	0	-1	-2	-3	n.a.	n.a.	n.a.

Stylized Notching Guideline Table: refer to GRE criteria for details

Analytical Outcome Guidance Table

Risk profile	Financial profile					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Government LT IDR	GRE SCP	GRE LT IDR
AAA	aaa	AAA
AA+	aa+	AA+
AA	aa	AA
AA-	aa-	AA-
A+	a+	A+
A	a	A
A-	a-	A-
BBB+	bbb+	BBB+
BBB	bbb	BBB
BBB-	bbb-	BBB-
BB+	bb+	BB+
BB	bb	BB
BB-	bb-	BB-
B+	b+	B+
B	b	B
B-	b-	B-
CCC+	ccc+	CCC+
CCC	ccc	CCC
CCC-	ccc-	CCC-
CC	cc	CC
C	c	C
RD	rd	RD
D	d	D

LT IDR – Long-Term Issuer Default Rating; GRE – Government-related entity
Source: Fitch Ratings

Fitch views FMO as a GRE of the Netherlands and equalises its ratings with those of the sovereign. This reflects a support score of 45 under our *GRE Rating Criteria.*

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The rating is at the highest level on Fitch's scale and cannot be upgraded.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of the Dutch sovereign ratings.
- An adverse change to Fitch's assessment of the strength of linkage and the incentive to support from the state, notably a weakening of the keep-well agreement between the state and FMO, associated with a reduction in state control.

Issuer Profile

FMO, a Dutch entrepreneurial development bank, is an important government-related financial vehicle for developmental finance. It provides financing to private companies, projects and financial institutions in developing countries, mainly in the world's 55 poorest, through long-term loans and equity investments, in line with the government's goals on development co-operation. FMO also offers guarantees for third-party investments in developing economies and is active in trade finance and syndicated loans.

FMO was founded in 1970 by the Dutch government, the private sector, employers and trades unions as a joint-stock company with the goal of empowering entrepreneurs in emerging economies. It specialises in sectors in which its contribution can have the greatest long-term effect, such as financial institutions, energy and agribusiness.

FMO also acts as an asset manager for several government funds. The risks of these investments are borne by the state and, therefore, do not weigh on FMO's solvency.

Support Rating Factors

Summary

Responsibility to support		Incentives to support			
Decision-making and oversight	Precedents of support	Preservation of government policy role	Contagion risk	Support score	Support category
Strong	Very Strong	Strong	Very Strong	45 (max 60)	Virtually Certain

Source: Fitch Ratings

Decision-Making and Oversight

FMO is a commercial law entity majority-owned by the state. We, therefore, expect state involvement in managing its liquidation in the event of default. It is highly unlikely that the state would give up its majority stake due to the terms of a keep-well agreement.

The Ministries of Finance and Foreign Affairs jointly oversee FMO's activity and accounts, and, due to its banking licence, is also supervised by the Dutch central bank.

Since 1977, the state, through the Ministry of Finance, has owned 51% of FMO through A-shares that can only be issued to the state; the remaining 49% is owned by Dutch banks and institutions – mainly ABN AMRO Bank N.V. (A/Stable/F1), Cooperatieve Rabobank U.A. (A+/Stable/F1) and ING Groep N.V. (A+/Stable/F1) – and individual investors in the form of B-shares. Both sets of shares have the same voting rights. Fitch believes the state is unlikely to relinquish its majority stake, as the state guarantee requires a 12-years notice for revocation.

Nearly all decisions in the general assembly of shareholders need a simple majority, with the exception of motions to amend the Articles of Association and dissolve the company and resolutions for a legal merger or divestiture.

A management board of five directors, appointed by a five-member supervisory board, implements FMO's strategy. The supervisory board is appointed by the general meeting of shareholders and has three committees: audit, risk, and selection, appointment and remuneration.

Fitch considers the state's control and oversight as highly supportive of FMO's credit quality. Within the mandates of the keep-well agreement, FMO has substantial operational independence, although it consults the state on strategic decisions. The state can also provide 'reasonable instructions' under exceptional circumstances, should FMO require financial state support.

The Ministry of Finance supervises FMO's risk policy and position on the basis of quarterly reports from the chief risk officer, while the Ministry of Foreign Affairs annually assesses the company's alignment with its development co-operation policy. FMO provides the ministries with a quarterly balance sheet summary as well as its profit and loss account compared with the budget. It meets the departments at least twice a year for policy consultation and to discuss compliance with its activity criteria.

Changes to the regulatory framework require consent from the state and FMO: the former intervenes in latter's management and operations to a limited extent. FMO must consult the state for investments that exceed 30% of its capita; its remuneration policy is subject to a non-binding proposal from the Ministry of Finance; and FMO's Dutch banking licence means it is supervised by the local banking regulator.

Precedents of Support

Fitch considers the keep-well agreement as an important form of state support and expects it to continue. The 2023 revision maintained the key support provisions, as highlighted both in the indefinite term of the agreement and a 12-year notice from either party in case of termination.

Article 5 of the revised agreement legally binds the state to support FMO and ensure that it meets its financial obligations on time, notably by providing liquidity. Article 4 commits the state to safeguard FMO's solvency in most circumstances. As a policy instrument for the Dutch state, Fitch sees no legal, regulatory or political restrictions on government support to FMO.

State backing for FMO's solvency and liquidity remains strong and formalised. It applies to all debt issued in the capital markets, irrespective of tenor or rank. The relationship between the state and FMO is set out in a keep-well agreement. The agreement is regarded as a state guarantee on FMO's financial obligations. It has an indefinite term and its termination requires 12 years' notice from either party, which is the rational for not issuing bonds with a maturity beyond 12 years.

Article 5 of the 2023 agreement commits the state to prevent FMO from failing to meet its debt obligations in a timely manner and lists the types of obligations that are covered. This obligation exists solely between the state and FMO. In the exceptional case that the state has suspended its obligations, a third party cannot take legal action to force the state directly to honour its payment obligations. However, Fitch considers that the pledge from the state effectively ensures that FMO's obligations are strongly backed up by the Netherlands' credit standing.

Article 4 of the 2023 agreement implements a state 'maintenance obligation' to FMO, which, unlike the guarantee on the company's financial obligations, can be suspended. This obligation commits the state to covering all of FMO's losses from unforeseen and non-provisioned operational risks that cannot be covered by the general reserve risk fund.

FMO's bank status provides it with access to the ECB refinancing operations, if needed. Fitch does not consider the validity of the keep-well agreement to be threatened by EU regulation on state aid and the Bank Recovery and Resolution Directive. Fitch does not believe the directive would prevent state support for FMO under the keep-well agreement, due to its lesser significance according to the ECB and clear public-private ownership and public policy mandate.

Preservation of Government Policy Role

As a financial institution with a policy role, a default by FMO would temporarily jeopardise some of the state's international commitments, likely causing political repercussions for the government.

It operates under the policy remit of the Ministry of Development Cooperation, and provides financing for private companies and financial institutions (EUR4.9 billion of net loans outstanding at end-2023; EUR2.4 billion of equity investments). FMO also manages strategic development (off-balance sheet) funds on behalf of the state, namely the MASSIF (EUR493 million of committed funds), Building Prospects (EUR484 million) and AEF (EUR195 million) funds at end-2023.

Most of FMO's financing operations are development projects that commercial banks tend to avoid due to high risks. Regular commercial banks without a state guarantee would struggle to fund the activities FMO undertakes, with one of the latter's goals to involve commercial banks in its deals to improve the development of the financial systems of emerging markets and developing countries.

The Netherlands has two promotional public banks: BNG Bank N.V. (AAA/Stable), which finances Dutch local authorities, and Nederlandse Waterschapsbank N.V., which finances Dutch local authorities, water authorities and other infrastructure projects. Fitch believes that these banks could not easily replace FMO, due to their different business models and risk. The banks operate solely in the Dutch public sector, while FMO operates in higher-risk geographies, mostly with private borrowers.

Contagion Risk

International investors see FMO as a proxy financing vehicle for the Dutch government to fund state policy missions, as illustrated by its narrow spread over the sovereign's cost of debt. On average, FMO raises EUR1 billion-2 billion of debt a yearion the capital markets.

Due to the proximity of FMO to the state, we assumes that contagion risk in a default would have a material impact on the availability of financing for borrowers linked to the Netherlands' development policy and on the cost of funding for the Dutch state and its financial agents.

FMO benefits from a solid and sustained presence in the financial markets, with a EUR7 billion debt issuance programme, EUR1.5 billion commercial paper programme, AUD1 billion Australian and New Zealand note issuance programme and frontier issuances in local currencies. FMO has also issued green and sustainability bonds. Its financial debt totalled EUR6.2 billion at end-2023.

Its debt issues are eligible for the ECB's public-sector purchase programme, a feature it shares with only two other Dutch issuers, BNG and Nederlandse Waterschapsbank, both major credit institutions supervised by the ECB, active in the markets and share a common investor pool. A default by FMO could, therefore, affect the two other public banks' funding costs, directly affecting the availability of funds for the public sector.

Operating Performance

FMO's profitability in 2023 was consistent with its historical trend, with a net interest margin of 3%. This healthy net interest margin reflects its low funding costs linked to the Netherlands' 'AAA' credit rating, and sufficient yields generated by business activities in emerging markets countries.

The credit quality of FMO's loan portfolio stabilised by end-2023 with its impaired loans/loans ratio decreasing to 3.9%, from 5% in 2022. This improvement was underpinned by adequate provisions made in 2022 and investments exposed to external events, such as war in Ukraine, political unrest in Myanmar, and investment in countries with (partial) default and convertibility issues (Argentina, Ghana and Pakistan). FMO's assets increased by 4% in 2023, after a 6% rise in 2022, on the continued expansion of its loan portfolio.

Interest Income Summary, 2023

	(EURm)	% of interest revenue
Interest on loans	473.9	89.0
Other interest revenue	58.7	11.0
Interest revenue	**532.6**	**100**
Interest expenditure	-311.1	-
Net interest income	221.5	-
Net interest margin (%)	3.0%	
Memo: transfers and grants from government	0	-

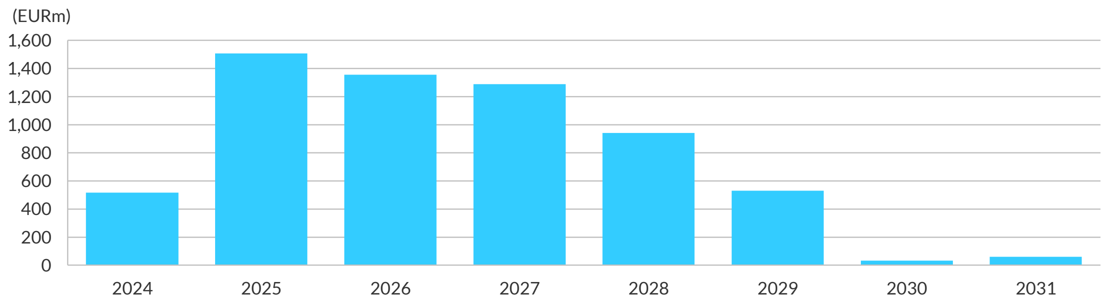
Source: Fitch Ratings, Fitch Solutions, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Debt and Liquidity Analysis

Refinancing risk is mitigated by prudent liquidity management. In addition to annual refinancing needs of EUR1 billion-2 billion, FMO's liquidity is sensitive to market fluctuations that may require it to post additional cash collateral on derivatives used to hedge market risk. Liquid assets comprising cash and highly liquid securities were at EUR2.1 billion at end-2022, little changed from the previous year. The bank could use its entire solvency-free portfolio as collateral to obtain funding from the ECB. FMO's regulatory liquidity remains robust, with a liquidity coverage ratio of 0.44% (2021: 0.97%) and a net stable funding ratio of 114% at end-2022 (end-2021: 117%).

FMO has sustained its capital position at above the Dutch central bank's minimum required level at end-2023, while its liquidity remained robust. FMO's limited FX risk on its debt portfolio is hedged via either matching characteristics of assets, or cross-currency swaps and FX forwards, mostly to US dollars.

Principal Debt Repayment in Nominal Value (as of end-2023)



Source: Fitch Ratings, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Debt Analysis

(EURm)	End-2023	% of total debt
Total debt	6,232	-
Issued debt	6,232	100.0%
Short term debt	171	2.7%
Government-related debt	0	0.0%
Debt in foreign currency	1,561	25.1%
Debt at floating interest rate	0	0.0%
Apparent cost of debt (%)	5.0	-
Weighted average life of debt (years)	3.4	-

Source: Fitch Ratings, Fitch Solutions, FMO

Short-Term Rating Derivation

FMO is rated on a top-down basis from Netherlands, which results in a 'F1+' Short-Term Issuer Default Rating (IDR) in line with the sponsor.

Debt Ratings

The ratings of FMO's senior unsecured debt are equalised with its IDR.

FMO's Tier 2 notes are rated one notch below its IDR, reflecting the risk of repayment subordination to senior unsecured debtholders in case of liquidation, bankruptcy or emergency regulation being declared applicable to FMO by the supervisory authority (or other deliberations), despite state support for all FMO debt liabilities.

Peer Analysis

Peer Comparison

	Risk Profile	Financial Profile	SCP	Support Category	Single Equalisation Factor	LT IDR	National Rating
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	-	-	n.a.	Virtually certain	No	AAA (Sta)	n.a.
Agence Francaise de Developpement	-	-	n.a.	Virtually certain	No	AA- (Sta)	n.a.
Caisse des Depots et Consignations	-	-	n.a.	Virtually certain	No	AA- (Sta)	n.a.
Financement-Quebec	-	-	n.a.	Virtually certain	Yes	AA- (Sta)	n.a.
Korea SMEs and Startups Agency	-	-	n.a.	Virtually certain	No	AA- (Sta)	n.a.

Source: Fitch Ratings

FMO's IDR benefits from its 45-point GRE score that it shares with Agence Francaise de Developpement, a promotional bank operating mostly in emerging markets; Caisse des Depots et Consignations, which finances social housing, local and sustainable development and protects legal deposits. Their peers are Korea SMEs and Startups Agency, a funding agency with a policy role, and Financement-Quebec, a funding vehicle for provincial GREs.

ESG Considerations

Fitch no longer provides ESG scores for FMO as its ratings and ESG profile are derived from its parent. ESG relevance scores and commentary for the parent entity - Netherlands - can be found here.

Appendix A: Financial Data

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

(EURm)	2019	2020	2021	2022	2023
Income statement					
Interest revenue	376	324	267	351	533
Interest expenditure	-161	-83	-36	-116	-311
Net interest income	215	241	231	235	222
Net fees and commissions	26	34	38	31	25
Other operating income	109	-176	323	91	-3
Personal expenses	-90	-101	-73	-108	-128
Other operating expenses	-40	-43	-41	-44	-50
Net gains and losses on securities and trading	-20	-11	-26	-19	8
Net operating income (loss)	199	-56	451	186	74
Provisions	-92	-78	9	-143	-40
Other non-operating items	11	-66	64	-59	26
Transfers and grants from public sector	0	0	0	0	0
Taxation	2	-4	-33	17	5
Net profit (loss)	120	-205	491	1	65
Balance sheet					
Assets					
Cash and cash equivalents	65	47	96	27	49
Liquid securities	652	833	700	733	737
Deposits with banks	1,374	1,297	1,343	1,368	1,833
Loans	5,031	4,759	4,775	5,110	4,884
Other earning assets	1	1	1	1	1
Long term Investments	2,165	1,984	2,316	2,580	2,669
Fixed assets	46	30	27	23	20
Intangible assets	54	31	24	41	56
Other long-term assets	26	17	23	17	34
Total assets	9,412	8,998	9,303	9,900	10,283
Liabilities and equity					
Customer deposits	0	0	0	0	0
Deposits from banks	0	0	0	0	0
Short-term borrowing	94	341	123	135	171
Other short-term liabilities	0	0	0	0	0
Debt maturing after one year	5,808	5,486	5,427	5,572	6,061
Other long-term funding	260	130	193	612	419
Other provisions and reserves	49	66	28	42	45
Other long-term liabilities	73	78	99	91	74
Share capital	3,094	2,871	3,403	3,410	3,448
Reserves and retained earnings	33	26	31	39	65
Equity and reserves	3,127	2,897	3,434	3,448	3,513
Total liabilities and equity	9,412	8,998	9,303	9,900	10,283
Memo:					
Guarantees and other contingent liabilities	1,881	1,616	1,535	1,640	1,978

Source: Fitch Ratings, Fitch Solutions, FMO

Appendix B: Financial Ratios

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

(%)	2019	2020	2021	2022	2023
Performance					
Interest revenue on loans/loans	6.1	6.4	5.6	6.3	9.2
Interest expense/borrowings and deposits	2.6	1.4	0.6	1.8	4.7
Net interest income/earning assets	3.0	3.5	3.3	3.2	3.0
Net operating income/net interest income and other operating revenue	57.0	-56.7	76.3	52.0	30.2
Net operating income/equity and reserves	6.4	-1.9	13.1	5.4	2.1
Net operating income/total assets	2.1	-0.6	4.9	1.9	0.7
Credit Portfolio					
Growth of total assets	10.9	-4.4	3.4	6.4	3.9
Growth of loans	7.1	-5.3	-0.3	7.8	-4.3
Impaired loans/total loans	4.3	5.9	3.5	5.0	3.9
Reserves for impaired loans/impaired loans	106.8	79.7	117.8	95.5	126.1
Loan impairment charges/loans	1.8	1.5	-0.1	2.5	0.8
Debt and Liquidity					
Long-term debt/total equity and reserves	186	189	158	162	173
Liquid assets/total assets	7.6	9.8	8.6	7.7	7.7
Total deposits and debt/total assets	65.5	66.2	61.7	63.8	64.7
Liquid assets/short-term deposits and borrowing	759.4	257.9	644.7	565.0	459.5
Capitalization					
Equity and reserves/total assets	33.2	32.2	36.9	34.8	34.2
Profit after tax/total equity and reserves	3.9	-7.1	14.3	0.0	1.9
Loans/equity and reserves	168.5	172.3	145.0	155.6	146.3

Source: Fitch Ratings, Fitch Solutions, FMO

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.