

Fitch Affirms FMO at 'AAA'; Outlook Stable

Fitch Ratings-Paris-04 April 2019: Fitch Ratings has affirmed Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.'s (FMO) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AAA' with a Stable Outlook, and Short-Term Foreign-Currency IDR at 'F1+'.

Fitch has also affirmed FMO's EUR7 billion debt issuance programme's long-term foreign and local currency ratings at 'AAA', EUR1.5 billion commercial paper programme's and short-term foreign and local currency ratings at 'F1+' and senior unsecured bonds' at long-term foreign and local currency ratings at 'AAA'. FMO's EUR175 million subordinated (Tier 2) notes maturing in December 2025 have also been affirmed at 'AA+'.

FMO's ratings are aligned with those of the Netherlands (AAA/Stable/F1+) due to a 'keep well' agreement in place between FMO and the government, formalised in 1998. Under this agreement, the state shall prevent situations arising in which FMO is unable to meet its financial commitments on time and the state is committed to covering all FMO's losses from unforeseen and non-provisioned operational risks that cannot be covered by the general reserve risk fund. Fitch uses a top-down credit-linked approach in its Government-Related Entities Criteria to equalise FMO's ratings with the sponsor's, reflecting expected very strong extraordinary support from the state in case of need.

FMO's Tier 2 notes are rated one notch below the entity's 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 as per provisions of the bond memorandum (or other deliberations), despite the state support extended to all FMO's debt liabilities.

KEY RATING DRIVERS

Strong Status, Ownership and Control

The Dutch state owns 51% of FMO's shares. The remaining 49% is owned by large Dutch banks, Dutch institutions and private individuals. Fitch views it highly unlikely that the state would give up its majority stake due to the terms of the keep-well agreement. The Ministry of Finance and the Ministry of Foreign Affairs jointly oversee FMO's activity and accounts.

Very Strong Support Track Record and Expectations

The 1998 agreement has an indefinite term and its termination requires 12 years' notice from either party. Under Article 8 of the sovereign support agreement, the state is legally bound to enable FMO to meet its financial obligations on time, notably by providing liquidity. Article 7 of the agreement obliges the state in most circumstances to safeguard FMO's solvency.

Strong Socio-Political Implications of Default

FMO is the operator of Dutch development policy towards developing countries. It is a policy instrument of the Ministry of Development Cooperation, providing financing for private companies and financial institutions (EUR4.8 billion of net loans outstanding at end-2018; EUR1.8 billion of equity investments). FMO also manages strategic development (off-balance) funds on behalf of the state.

Very Strong Financial Implications of Default

Fitch believes that a default of FMO would have a serious impact on the availability of financing for borrowers linked to the Netherlands' development policy and on the Dutch state's creditworthiness due to the keep-well agreement. FMO is a major Dutch government-related entity issuer, issuing between EUR1 billion to EUR2 billion bonds per year.

FMO's profitability has been solid and resilient over recent years. FMO benefits from a healthy net interest margin owing to its low funding costs and the typically high yields generated by businesses conducted in emerging countries. Net profit in 2018 amounted to EUR151 million, down from EUR255 million in 2017, as lower capital gains related to a loss on several investments in a fund manager offset the positive impact of limited impairments (2018: EUR12 million vs. 2017: EUR62 million).

In implementing its growth strategy, FMO saw its total committed loan and investment portfolio (including investments on behalf of the state) slightly increase to EUR9.6 billion in 2018 from EUR9.2 billion in 2017. New financing commitments (EUR2.6 billion in 2018 vs. EUR3.1 billion in 2017) are evenly split between Africa, Asia, Latin America and the Caribbean, and eastern Europe. FMO's regulatory solvency remained strong at end-2018 (core Tier 1 capital ratio of 24.6%) with the growth of the loan and equity investment portfolio offset by higher net profit and available-for-sale reserves. Its leverage is low, and the equity/asset ratio strengthened to 35% in 2018 from 34% in 2017.

RATING SENSITIVITIES

A downgrade of the Dutch sovereign rating would result in a corresponding action on FMO. A downgrade may also result from an adverse change to Fitch's assessment of the strength of linkage and the incentive to support from the state, notably the weakening of the agreement between the state and FMO, associated with a reduction in FMO's state ownership.

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Applicable Criteria

Government-Related Entities Rating Criteria - Amended (pub. 29 Mar 2019)

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)

Additional Disclosures

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