FitchRatings

# FITCH AFFIRMS FMO AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-Paris/London-07 April 2017: 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 at Long-term foreign and local currency 'AAA' ratings and Short-term foreign and local currency 'F1+' and senior unsecured bonds at Long-term foreign and local currency 'AAA'. FMO's EUR175m subordinated (Tier 2) notes maturing in December 2025 have also been affirmed at 'AA+'.

The affirmation reflects the unchanged links between FMO and the Dutch government since our last rating action in April 2015, including our expectations of strong extraordinary support from the state, the state control of FMO and the strategic importance FMO has for the Netherlands.

KEY RATING DRIVERS
FMO's ratings are aligned with those of the Netherlands (AAA/Stable/F1+) due to Fitch's expectations of strong extraordinary support from the state. This was formalised in a 1998 agreement between FMO and the government. The ratings also reflect state control and oversight as well as FMO's strategic importance for Dutch development aid policy. FMO obtained a full banking license in 2014 and is regulated as a bank. However, Fitch considers FMO a credit-linked entity and uses a top-down approach under its non-US public sector entities criteria to rate it.

Integration (Stronger): 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 provides for the state's maintenance obligation in most circumstances to safeguard FMO's solvency. The state's obligation is to FMO, not to third parties. The tenor of the agreement is indefinite and its termination requires 12 years' notice

Legal Status (Midrange): The Dutch state owns 51% of FMO's shares, through the Ministry of Finance. The remaining 49% is owned by large Dutch banks, Dutch institutions and private individuals. Fitch considers it highly unlikely that the state would give up its majority stake, as the state guarantee can only be revoked with 12 years' notice.

Strategic importance (Stronger): As a development finance institution, FMO's main goal is to support sustainable private initiatives in emerging markets, in accordance with Dutch development aid policy. Its core business is to provide long-term financing (outstanding EUR4.47 billion net loans at end-2016; equity investments EUR1.71 billion) to private companies and financial institutions. In addition, FMO manages several strategic development funds on behalf of the Dutch government. These off-balance-sheet funds totalled EUR1.24 billion at end-2016.

Control (Midrange): The Ministry of Finance and Ministry of Foreign Affairs oversee FMO's activity and accounts. They exercise a supervisory role at FMO, on behalf of the Dutch government through different mechanisms. The Ministry of Finance focuses on FMO's risk policy and financial results while the Ministry of Foreign Affairs assesses FMO's policy development. As a policy bank, Fitch believes that FMO would not be subjected to the Bank Recovery and Resolution Directive (BRRD) in the same way as European commercial banks and that the state would provide the necessary support to prevent a resolution.

Operations: FMO's profitability has been solid and resilient over recent years. FMO benefits from low funding costs and high investment yields generated by business conducted in emerging countries while executing thorough control of credit risk. FMO registered a new record net income in 2016 of EUR176 million, in line with 2015's EUR174 million. However, the underlying performance differed as the bottom line was boosted by the reversal of EUR37.4 million in loan provisions.

FMO's total committed investment portfolio increased to EUR9.8 billion in 2016 from EUR9.2 billion in 2015. NPLs increased slightly to 7.5% (6.9% in 2015), mostly driven by non-financial institution corporates exposures, but the quality of FMO's loans and investments portfolios remained fairly stable and well provisioned in 2016. FMO's profitability remained high with a return on shareholders' equity at 6.7% in 2016, notably in light of FMO's strong interest margin. Fitch expects the return on equity will remain stable in the medium term, despite the volatility of the markets in which FMO operates.

FMO's regulatory solvency remained strong at end-2016 (core Tier 1 capital ratio of 22.7%, from 22.9% in 2015), offsetting the growth of the loan and equity investment portfolio by higher net profit and available for sale reserves. Its leverage is low, and the equity/assets ratio strengthened in 2016 to 32.4% (29.8% in 2015).

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 as per provisions of the bond memorandum (or other deliberations), despite the state support extended to all FMO's debt liabilities.

RATING SENSITIVITIES
Negative rating action could result from a downgrade of the Netherlands' sovereign rating or adverse changes to the state's oversight and support of FMO; 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

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

https://www.fitchratings.com/site/re/878660

Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016)

https://www.fitchratings.com/site/re/877128