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Fitch Rates FMO's Subordinated Notes 'AA+'

Fitch Ratings-Paris-09 July 2020:

Fitch Ratings has assigned Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.'s (FMO, AAA/Stable) EUR250 million Tier 2 subordinated notes (ISIN: XS2205081966) due 15 January 2031 a 'AA+' rating.

The subordinated notes will carry a fixed interest rate and will mature in 2031. Subject to certain conditions, FMO may decide to redeem all, but not some, of the notes from 15 July 2025 onwards at their principal amount together with any outstanding payments, subject to regulatory approval. The notes are listed on the official market of the Luxembourg Stock Exchange.

The notes constitute unsecured and subordinated obligations of FMO.

Key Rating Drivers

The Tier 2 notes are rated one notch below FMO's 'AAA' Long-Term Issuer Default Rating (IDR), reflecting the risk of repayment subordination to senior unsecured debt-holders in case of liquidation or bankruptcy or emergency regulation 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.

The ratings reflect Fitch's expectations of strong extraordinary support from the Netherlands (AAA/Stable/F1+) due to the 1998 agreement (the "keep-well agreement") between FMO and the government. Under Article 8 of the agreement, the state is legally bound to enable FMO to meet its financial obligations on time, notably by providing liquidity. The tenor of the agreement is indefinite and its termination requires 12 years' notice. Article 7 of the agreement provides the state's maintenance obligation in most circumstances to safeguard FMO's solvency. Article 8 provides the state will prevent situations arising in which FMO is unable to meet its commitments on time, among others in respect of loans raised on the capital markets. The state's obligation is to FMO, not to third parties. The agreement does not differentiate between different levels of debt classes; therefore, Fitch considers that FMO's subordinated debt is captured under the keep-well agreement and rated according to a top-down approach.

FMO's activity and accounts are tightly controlled and monitored by the state through the Ministry

of Finance and the Ministry of Foreign Affairs and Cooperation Development, and it has strategic importance for Dutch development aid policy. FMO obtained a full banking license in 2014 and is regulated as a bank.

Derivation Summary

FMO's ratings and the rationale for their equalisation with the sovereign are outlined in the rating action commentary dated 26 March 2020 (Fitch Affirms FMO at 'AAA'; Outlook Stable)

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Changes to the subordinated notes' rating would result from changes to FMO's IDRs.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Material changes to the keep-well agreement between the state and FMO could result in a downgrade of FMO's IDRs and hence the notes' rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>].

Date of Relevant Committee

25 March 2020

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

The ratings of FMO are credit-linked to the ratings of the Netherlands.

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

---subordinated; Long Term Rating; New Rating; AA+

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Government-Related Entities Rating Criteria \(pub. 13 Nov 2019\)](#)

[Rating Criteria for International Local and Regional Governments \(pub. 13 Sep 2019\) \(including](#)

[rating assumption sensitivity\)](#)

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