Fitch Revises Outlook on FMO to Stable; Affirms at 'AAA'

Fitch Ratings, Paris/London, 5 August 2014: Fitch Ratings has revised the Outlook on Fitch Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.'s (FMO) Long-term foreign and local currency Issuer Default Ratings (IDRs) to Stable from Negative and affirmed the IDRs at 'AAA'. The Short-term IDR has been affirmed at F1+.

The rating actions follow the revision of the Outlook on the Netherlands' Issuer Default Rating (IDR; see 'Fitch Revises Outlook on The Netherlands to Stable; Affirms at 'AAA' dated 11 July 2014 at www.fitchratings.com).

KEY RATING DRIVERS

FMO's ratings are aligned with those of the Netherlands (AAA/Stable/F1+) due to strong expected support from the state. State support for FMO was formalised in a 1998 agreement between the entity and the government. The ratings also reflect tight state control and oversight as well as FMO's strategic importance for Dutch development aid policy. FMO is regulated as a bank. However, Fitch uses a top-down approach under its non-US public sector entities criteria to rate FMO.

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 EUR2.9bn net loans at end 2013; equity investments EUR962m) to private companies and financial institutions. In addition, FMO manages several strategic development funds on behalf of the Dutch government. These funds represented EUR646m at end 2013. Through its mission, FMO helps promote the state's financial and political interests.

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. The duration of the agreement is indefinite and its termination requires 12 years' notice. Article 7 of the agreement provides the state's obligation in most circumstances to safeguard FMO's solvency. The state's obligation is to FMO, not to third parties.

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.

The Ministry of Finance and Ministry of Foreign Affairs and Cooperation Development oversee FMO's activity and accounts. The Ministry of Finance focuses on risk and the financial results of FMO's policy while the Ministry of Foreign Affairs and Cooperation Development assesses its strategic development.

FMO's profitability has proven solid and resilient. It benefits from a healthy net interest margin owing to its low funding cost and the typically high yield generated by businesses conducted in emerging countries. At end-2013, net profit remained sound at EUR133m from EUR145m at end-2012, yielding a return on shareholders' equity of 7% which should be considered in the light of FMO's extensive equity base relative to total assets. Risk management is thoroughly performed.

FMO's regulatory solvency is strong (BIS ratio of 27.7% at end-2013) and its leverage is particularly low (equity/assets of 31.7% at the same date). The implementation of the more stringent Basel III/CRD IV is not expected to have any material impact on its current strong capital ratios.

RATING SENSITIVITIES
A downgrade of the Netherlands' sovereign rating could result in a corresponding action on FMO. A downgrade may also result from an adverse change to FMO's ownership, as well as from adverse changes to the state's oversight and support of FMO.

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Additional information is available on www.fitchratings.com.

Applicable criteria, "Tax-Supported Rating Criteria", dated 14 August 2012, and "Rating of Public Sector Entities - Outside the United States", dated 4 March 2014, are available on www.fitchratings.com.