

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)
(/gws/en/esp/issr/92944297)



Fitch Affirms FMO at 'AAA'; Outlook Stable

Fitch Ratings-Paris/London-05 April 2018: 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' and short-term foreign and local currency ratings at 'F1+' and the 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 a 'keep well' agreement in place between FMO and the government, formalised in 1998, whereby 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. FMO obtained a full banking license in 2014 and is regulated as a bank. However, Fitch classifies FMO as a credit-linked entity under its Government-Related Entities Rating Criteria. Fitch believes that extraordinary support from the Dutch government would be forthcoming in case of need.

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.

KEY RATING DRIVERS

Under the criteria, we assess four key rating factors: status, ownership and control, and support track record and expectations comprise the Strength of Linkage factors. Incentive to Support factors cover the socio-political implications of a GRE default and the financial implications of a GRE's default.

Status, Ownership and Control: Fitch assesses this factor as Strong.

The Dutch state owns 51% of FMO's shares. 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 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.

Support Track Record and Expectations: This factor is assessed as Very Strong.

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.

Socio-Political Implications of Default: This factor is assessed as Strong.

FMO is the operator of Dutch development aid policy towards developing countries. As a policy instrument of the Ministry of Development Cooperation, FMO's main goal is to support sustainable

private initiatives (companies and financial institutions) in emerging markets, in accordance with the Dutch development aid policy. At end-2017, FMO's balance sheet included EUR4.1 billion of net loans outstanding and EUR1.5 billion of equity investments. FMO also manages strategic development funds on behalf of the state. These funds totalled EUR1.5 billion at end-2017, and are accounted for as off-balance sheet items.

Financial Implications of Default: This factor is assessed as Very Strong.

Fitch considers that a default of FMO would have a serious impact on availability financing for borrowers linked to the Netherlands' development policy and on the quality of the Dutch state's signature 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 low funding costs and high investment yields generated by business conducted in emerging countries while executing thorough control of credit risk. In 2017, FMO recorded a net profit of EUR255 million, higher than 2016's EUR176 million. Consequently, FMO's profitability remained high, with a return on shareholders' equity of 9% in 2017 (6.4% in 2016). The results follow robust performance of the loan portfolio, strong results from equity investments, and limited value adjustments. Fitch expects the return on equity will remain volatile in the medium term, despite FMO's strong interest margin, as FMO's results are driven for an important part by equity investments. FMO's future results are expected to be more volatile, due to the transition to IFRS9 as of January 2018.

FMO's total committed investment portfolio decreased to EUR9.2 billion in 2017 from EUR9.8 billion in 2016, mostly due to a weaker US dollar, but remained in line with the 2015 level. Non-performing loans decreased to 5.6% of FMO's total portfolio in 2017 from 7.5% in 2016.

FMO's regulatory solvency remained strong at end-2017 (core Tier 1 capital ratio of 24.6%, from 22.7% in 2016), due to 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/assets ratio was strengthened to 34% in 2017 (32.4% in 2016).

RATING SENSITIVITIES

Negative rating action could result from a downgrade of the Netherlands' sovereign rating or adverse changes to the state's 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

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)

(<https://www.fitchratings.com/site/re/10019302>)

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

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