FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms FMO at 'AAA'; Outlook Stable

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Fitch Ratings - Paris - 30 Sep 2021: 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.

FMO's ratings are aligned with those of the Netherlands (AAA/Stable) under Fitch's Government-Related Entities (GRE) Rating criteria. This notably reflects the strength of the legal linkage between the two through the 'keep well' agreement in place since 1998 between FMO and the government. Under this agreement, the state prevents 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'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

Status, Ownership and Control: 'Strong'

In Fitch's opinion, in case of liquidation the state would be closely involved and would have a say on how outstanding liabilities are dealt with. FMO is a commercial law entity majority owned by the state. The Dutch state owns 51% of FMO's shares and the remaining 49% is owned by large Dutch banks, Dutch institutions and private individuals. Fitch views it as 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 and exercise close control. FMO's activities are also supervised by the Dutch central bank as FMO has a banking licence.

Support Track Record: 'Very Strong'

Fitch considers the keep-well agreement is an important form of support from the state and expects the state to continue providing support to FMO.

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.

As a policy instrument for the Dutch state, Fitch considers there are no legal, regulatory or political restrictions on government support.

Socio-Political Implications of Default: 'Strong'

Fitch considers that as a financial institution, a default by FMO would temporarily endanger some of the international commitments of the Dutch state, with likely significant political repercussions at the government level. FMO relies on its market access to fund its operations and has issued close to EUR500 million of bonds on the market as of end-September 2021.

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 as of end-2020; EUR1.8 billion of equity investments). FMO also manages strategic development (off-balance) funds on behalf of the state.

Financial Implications of Default: 'Very Strong'

In Fitch's view, international investors consider FMO a proxy financing vehicle for the Dutch government raising det to fund some policy missions of the state, as illustrated by its narrow spread over the sovereign curve. On average, FMO raises between EUR1 billion and EUR2 billion of debt per year on domestic and international markets.

Due to the proximity of FMO and the state, Fitch believes that a default of former 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.

Operating Performance

FMO's profitability has been solid and resilient over recent years, with a net interest margin close to 3%. The healthy net interest margin reflects its low funding costs linked to the Netherlands' 'AAA' environment, and the typically high yields generated by businesses conducted in emerging countries. In 2020, the net interest margin was stable at 3.5%.

The credit quality of FMO's loan portfolio has not deteriorated, despite the pandemic. The level of non-performing loans (NPL, which include impaired loans, not impaired loans with past due exceeding 90 days and economically performing loans in probation) even decreased to 9.1% in 2020 from 9.8% in 2019, including some NPLs write-offs and the calling of some guarantees. NPLs returned to their 2019's level in 1H21 following the military coup in Myanmar in February 2021 and due to an increase in NPLs in South Africa. FMO's total assets were down 4% in 2020 as new loans productions was hindered by the global activity standstill, but they bounced back by 6% in 2021, in line with the global economic recovery.

Derivation Summary

Fitch Ratings views FMO as a GRE of the Netherlands (AAA/Stable) and equalises FMO's ratings with those of the sovereign. This reflects a score of 45 points under our GRE Rating Criteria.

Debt Ratings

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.

Liquidity and Debt Structure

Refinancing risk is mitigated by prudent liquidity management. In addition to annual refinancing needs ranging between EUR1 billion and EUR2 billion, the bank's liquidity is sensitive to market movements as it may be required to post additional cash collateral on derivatives used to hedge market risk. At end-2020, liquid assets comprising cash and highly liquid securities totalled EUR2.2 billion. Additionally, the bank could use its entire solvency-free portfolio as collateral to obtain funding from the ECB, if needed.

FMO has a strong liquidity coverage ratio of 1,116% and a net stable funding ratio of 127% at end-2020.

Issuer Profile

FMO is the Dutch development bank created in 1970, majority owned by the Dutch state with minority ownership by the private sector. FMO focuses mostly on supporting the private sector in emerging markets. Its bonds benefit from an explicit guarantee from the Dutch state through a keep-well agreement.

RATING SENSITIVITIES

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

A downgrade of the Dutch sovereign rating would result in corresponding action on FMO. A downgrade could 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 'keep-well' agreement between the state and FMO, associated with a reduction in state ownership.

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

The rating is the highest level on Fitch's scale and cannot be upgraded.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

FMO's ratings are credit-linked to those of the Netherlands.

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.

References for Substantially Material Source Cited as Key Driver Rating

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

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
•	ST IDR	F1+	Affirmed	F1+
•	LC LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
• senior unsecured	LT	AAA	Affirmed	AAA
• subordinated	LT	AA+	Affirmed	AA+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Nicolas Miloikovitch, CFA
Associate Director
Primary Rating Analyst
+33 1 44 29 91 89
nicolas.miloikovitch@fitchratings.com
Fitch Ratings Ireland Ltd
28 avenue Victor Hugo Paris 75116

Pierre Charpentier
Director
Secondary Rating Analyst

+33 1 44 29 91 45
pierre.charpentier@fitchratings.com

Raffaele Carnevale
Senior Director
Committee Chairperson
+39 02 879087 203
raffaele.carnevale@fitchratings.com

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	EU Issued, UK Endo

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