

## CREDIT OPINION

24 July 2017

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### RATINGS

#### Stichting Waarborgfonds MBO

Domicile	Netherlands
Long Term Rating	Aa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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## Stichting Waarborgfonds MBO

### Update of Key Credit Factors

#### Summary Rating Rationale

The Aa1 issuer rating for Stichting Waarborgfonds MBO (WMBO) reflects WMBO's strong links with the Government of the Netherlands (Aaa, stable), strong oversight of its member institutions by the government, and clear public policy mandate to support investment in the Adult and Vocational Education institution (MBO) sector.

#### Credit Strengths

- » Strong institutional framework and track record of government support for entities in distress
- » Sufficient liquidity reserves to meet guarantee payments in addition to callable capital
- » Stable operating performance and steady increase in reserves

#### Credit Challenges

- » Guarantee system has never been tested; no backstop or guarantee from the Dutch government
- » Concentration of guarantees and small size of organisation

#### Rating Outlook

The outlook is stable.

#### Factors that Could Lead to an Upgrade

- » If the Dutch government decided to provide an explicit guarantee to WMBO to prevent liquidity shortages

#### Factors that Could Lead to a Downgrade

- » A downgrade of the sovereign rating would result in a downgrade of WMBO's rating
- » A material deterioration of WMBO's financial performance or in the risk assessment preceding a guarantee approval
- » A weakening in the level of oversight and government support in the MBO sector could also exert downward pressure on the rating

## Issuer Profile

Founded in 1997 by the Netherlands' Minister of Education, Culture and Science and the Minister for Agriculture, MBO guarantees the payment of interest and principal on loans taken out by domestic MBO institutions for students' housing and accommodation costs. The guarantee arrangement enables MBO institutions to borrow at a lower cost. Guaranteed loans must meet certain criteria including a minimum period of 10 years, a straight-line repayment profile, and fixed rates of interest. WMBO does not have any plans to guarantee variable-rate debt, thus mitigating its exposure to fluctuations in interest rates.

WMBO is a not-for-profit entity. Membership in the WMBO is compulsory for all Dutch MBO institutions. As of 2016, there were 66 MBO institutions in the Netherlands, offering vocational training mainly in economics, technology and social services/healthcare as well as offering introductory courses for immigrants.

The government's duty to provide education, including adult and vocational education, whilst stated in general terms, is enshrined in the constitution and elevates the political profile of the sector.

## Detailed Rating Considerations

Moody's considers WMBO to be a government-related issuer. The WMBO's credit strength is inextricably linked to that of the Government of the Netherlands due to its clear public policy mandate, oversight of by the central government, and likely support from the central government in the event of financial distress. As such, its rating is derived primarily from the strength of the Government of the Netherlands (Aaa, stable) without assigning a Baseline Credit Assessment (BCA) as is described in Moody's rating methodology for government-related issuers entitled "Government-Related Issuers", published in October 2014.

WMBO is rated at the lower end of the narrow range for Dutch guarantee funds, whose ratings span from Aaa to Aa1. While we believe government support for WMBO is high, its rating reflects the lack of explicit backstop agreement with the central government to provide liquidity support, as is the case for peers Stichting Waarborgfonds Eigen Woningen (WEW) and Waarborgfonds Sociale Woningbouw (WSW). We believe, however, that in practice there is a strong incentive and a high probability of government support being mobilised in a stress scenario.

### STRONG INSTITUTIONAL FRAMEWORK AND TRACK RECORD OF GOVERNMENT SUPPORT FOR INSTITUTIONS IN DISTRESS

WMBO benefits from a robust institutional framework including strong and regular government oversight of its members by the Education Executive Agency (Dienst Uitvoering Onderwijs or DUO), a department within the Ministry of Education. The DUO is responsible for ensuring that the allocation of government funds is "legitimate, rightful and effective for its purposes". It uses a scoring system that assesses solvency, liquidity and profitability of all MBO institutions. In addition to the oversight by the DUO, WMBO also regularly monitors the performance of MBO institutions.

The government has a track record of intervention in the sector for entities experiencing financial difficulties, which exemplifies its commitment to maintaining the financial strength of the sector. In 2011 and 2012, following the discovery of financial difficulties at one institution – Amarantis – the Ministry of Education stepped in and the institution came under the control of the Inspectorate of Education (an agency of the Ministry of Education). Amarantis was subsequently split up into smaller institutions with the aid (including financial aid) of the Dutch government, and its financial problems were addressed. There was no impact to any WMBO guarantees as part of this restructuring.

The WMBO has a clear process for its interactions with the government in the event of financial difficulty of one of its members. If an MBO institution falls behind on the repayment of a guaranteed loan, WMBO would inform the Minister of Education and make the payment to the lending institution. Simultaneously, WMBO would take a floating charge on the properties of the BVE in financial distress, as security against the loan obligation. All parties would then convene to seek a long-term solution to the MBO's financial distress. In practice, the MBO could be restructured or its assets and liabilities could be transferred to another healthier institution. If an MBO institution does not comply with obligations as set in the membership agreement, WMBO has to inform the Minister of Education within 30 days, and the institution may be restructured if its creditworthiness is considered to be insufficient.

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Additionally, in May 2016 an amendment to its bylaws was made establishing the Committee of Representatives (CoR) of its members. The intention of the CoR is to anticipate and discuss issues affecting the sector in an effort to approve the service offered by the CoR.

#### SUFFICIENT LIQUIDITY RESERVES TO MEET GUARANTEE PAYMENTS IN ADDITION TO CALLABLE CAPITAL

WMBO has two main sources of funds that it can resort to in order to meet its guarantee obligations. Net of a small amount of liabilities, WMBO holds cash and investments (primarily highly-rated bonds), which amounted to EUR22.4 million at 31 December 2016. Assets are funded through an equity guarantee deposit (EUR9.98 million) from the Dutch Ministry of Education and retained earnings (EUR12.4 million, as at 31 December 2016).

WMBO can also access callable capital. Should WMBO's equity fall below EUR9.98 million (the level of the guarantee deposit), all MBO members are required to make available to WMBO up to 2% of the government grants received in the year the shortfall occurs. In 2016, MBO institutions received grants totalling approximately EUR4 billion, unchanged from 2015. This amount would have provided WMBO with access to approximately EUR80 million of capital in 2016. WMBO's forecasts suggest that the level of callable capital will remain almost unchanged during the next three years as government support for the sector through grant allocation is expected to remain unchanged around EUR4 billion per annum.

Callable capital must be made available to WMBO within 30 days of the request. We believe that WMBO's liquid assets are sufficient to meet loan obligations during this 30-day period, particularly as WMBO's guarantees are on amortising loans. Interest and principal payments for all guaranteed loans amounted to EUR54 million in 2016, unchanged from 2015, compared to WMBO's cash and investments position of EUR22.4 million and callable capital of EUR80 million.

WMBO has no outstanding debt. Outstanding guarantees totalled EUR501 million in 2016. There is no legislation limiting the total value of loans that WMBO could guarantee. However, WMBO's policy is to ensure that the total capital-to-debt service ratio does not fall below 1.0x. At year end 2016, this ratio stood at 1.91x (inclusive of callable capital of EUR80 million).

WMBO only provides guarantees to institutions that it considers creditworthy after reviewing multiple criteria including past and forecasted operating performance. In the last couple of years, engagement with issuers prior to approving a guarantee has increased, a credit positive. This shift is in response to a need in the sector for financial expertise whilst arranging borrowing with lenders in a challenging lending environment. The increased engagement enables WMBO to fulfill its social mandate, but also to have increased oversight with the institutions before they obtain a guarantee. The relationship is maintained once lending is secured; WMBO's board meets with selected institutions every year to discuss developments at these institutions and developments in the sector in general. WBVE also utilises information through DUO and MBO Raad.

#### STABLE OPERATING PERFORMANCE AND STEADY INCREASE IN RESERVES

WMBO has two sources of revenue. The first is an upfront fee ("disagio"), which it charges for each guarantee. The fee amounts to 0.5% of the nominal amount of the loan. Fee income was EUR105,000 in 2016, down from EUR150,000 in 2015. The second revenue source is interest and returns from WMBO's own-source capital reserve.

WMBO has a track record of reporting stable operating expenses. The Stichting reported a net profit of EUR155,000 in 2016. WMBO has an element of revenue flexibility and can alter its fee charging if costs increase by more than forecasted.

Profit is expected to be retained as reserves to strengthen capital. In 2009, more stringent investment guidelines were introduced, which only permit euro-denominated investments in bonds (with a minimum rating of Aa3) and bank deposits. As a result of continued positive operating performance, cash and investments continue to increase steadily, reaching EUR22.4 million at year end 2016 from EUR20.2 million five years earlier.

#### GUARANTEE SYSTEM HAS NEVER BEEN TESTED; NO BACKSTOP OR GUARANTEE FROM DUTCH GOVERNMENT

WMBO does not benefit from a backstop agreement from the central government as other guarantee funds (WEW, WSW) do. However, since its establishment in 1997, there has never been a call on the guarantee, a call to its participants to renew the capital base nor any need to approach the central government for further assistance in capitalisation.

The WMBO guarantee applies only to scheduled interest and principal payments, thereby limiting WMBO's exposure. However, the debt of WMBO's counterparties, including amounts guaranteed by WMBO, can be accelerated. We anticipate that any rights to accelerate a guaranteed loan would likely not be exercised, as this would not tend to improve ultimate collection and may contribute to sector instability.

We believe that sector-wide failures are highly unlikely given the role of the Dutch government in directly funding, regulating and supporting the sector in case of any event of distress, given:

- All MBO institutions are regulated and primarily funded by the Dutch Ministry of Education, Culture and Science; this raises the national profile of the sector and encourages intervention for an individual institution;
- The provisions of the Constitution requiring the government to establish and maintain consideration of education in practice raises the profile of the sector.

#### CONCENTRATION OF GUARANTEES AND SMALL SIZE OF ORGANISATION

Guarantees issued by WMBO are spread unevenly across MBO institutions. The four institutions with the largest amount of loans guaranteed account for approximately 55% of WMBO's guarantee exposure as of 31 December 2016. A simultaneous failure of several large guarantees could therefore deplete WBVE's liquidity reserve, though we believe the risk is minimal of simultaneous failure.

WMBO is managed by a three-person board, which is independent from MBO institutions and autonomous from the DUO (the government). Only the current board members may appoint successors. The board is also responsible for reviewing and approving all guarantees issued by WMBO. These tasks are, however, outsourced to Exté Management Support B.V. because WMBO has no employees.

## Ratings

Exhibit 1

Category	Moody's Rating
<b>STICHTING WAARBORGFONDS MBO</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Aa1

Source: Moody's Investors Service

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