

CREDIT OPINION

31 July 2024

Update

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RATINGS

Nederlandse Waterschapsbank N.V.

Domicile	The Hague, Netherlands
Long Term CRR	Aaa
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aaa
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aaa
Type	LT Bank Deposits - Fgn 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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Nederlandse Waterschapsbank N.V.

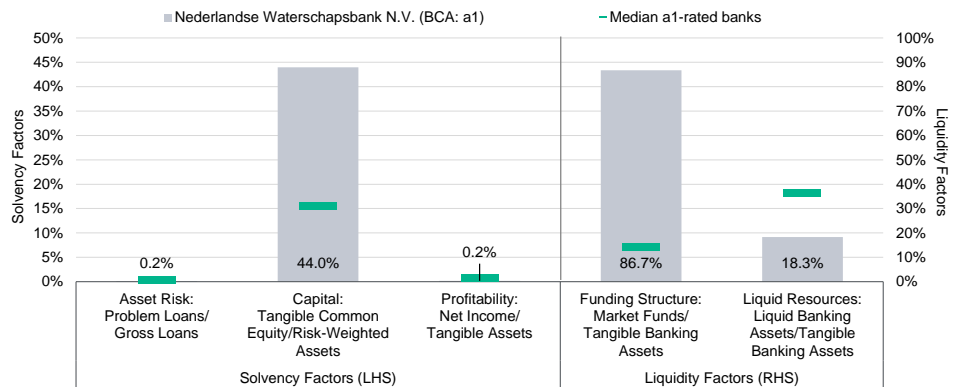
Update following ratings affirmation

Summary

[Nederlandse Waterschapsbank N.V.](#)'s (NWB Bank) Baseline Credit Assessment (BCA) of a1 reflects the bank's (1) role as the second-largest lender to the Dutch public sector; (2) entrenched franchise in a niche market which results in exceptional stability in its fundamentals; (3) very high asset quality because its portfolio mostly comprises loans to Dutch public entities; (4) high capitalisation, although leverage is high; and (5) good funding profile and liquidity position with limited maturity mismatches.

NWB Bank's Aaa deposit and senior unsecured ratings reflect (1) the bank's a1 BCA; (2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch LGF uplift from the bank's BCA of a1, given its significant volume of senior unsecured debt; and (3) a two-notch government support uplift, reflecting a very high probability of support from the [Government of the Netherlands](#) (Aaa stable) because of the entity's public ownership and its role as one of the principal financiers of the Dutch public sector.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » Major lender to the Dutch public sector and fully owned by Dutch public entities
- » High-quality assets, with most of the lending being risk weighted at 0%
- » Although low, profitability is commensurate with the bank's public policy role and its very low risk profile
- » Large volume of senior debt, resulting in deposit and senior unsecured debt ratings benefitting from a very low loss given failure and a two-notch uplift from the BCA
- » Very high probability of government support, resulting in a two-notch uplift of its debt and deposit ratings

Credit challenges

- » Large single-borrower concentrations given the bank's public policy mandate
- » Small mismatches between assets and liabilities, mitigated by diversified funding and eligibility of loans for central bank financing

Outlook

The stable outlook on NWB Bank's long-term deposit, issuer and senior unsecured debt ratings reflects the bank's stable financial metrics and its established franchise backed by a public policy mandate in the Netherlands, with a track record of stable market shares.

Factors that could lead to an upgrade

Upward pressure on NWB Bank's BCA could result from a lower reliance on wholesale funding, although this is unlikely, given the bank's business model. An upgrade of NWB Bank's BCA would not trigger any upgrade of the bank's deposit and senior unsecured ratings, which are already at Aaa.

Factors that could lead to a downgrade

Downward pressure on NWB Bank's BCA could result from a significant deterioration in the creditworthiness of the Dutch public sector, a significant deterioration in its solvency (for example from an increase in its non 0% risk-weighted assets), or a significant increase in its funding gaps. A downgrade of the BCA could result in a downgrade of all the ratings. NWB Bank's ratings would also be downgraded if the ratings of the Government of the Netherlands were downgraded.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Nederlandse Waterschapsbank N.V. (Unconsolidated Financials) [1]

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (EUR Million)	71,618.0	68,275.0	87,385.0	94,145.0	83,349.0	(3.7) ⁴
Total Assets (USD Million)	79,113.2	72,866.3	99,016.5	115,191.7	93,559.1	(4.1) ⁴
Tangible Common Equity (EUR Million)	2,050.0	1,986.6	1,895.5	1,819.6	1,789.9	3.5 ⁴
Tangible Common Equity (USD Million)	2,264.5	2,120.2	2,147.8	2,226.4	2,009.2	3.0 ⁴
Problem Loans / Gross Loans (%)	0.2	0.0	0.0	0.2	0.0	0.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	44.0	41.5	40.8	47.5	54.6	45.7 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.1	0.3	0.1	7.3	0.0	2.3 ⁵
Net Interest Margin (%)	0.4	0.4	0.3	0.3	0.3	0.3 ⁵
PPI / Average RWA (%)	3.6	4.1	4.5	3.7	3.9	4.0 ⁶
Net Income / Tangible Assets (%)	0.2	0.2	0.1	0.1	0.1	0.1 ⁵
Cost / Income Ratio (%)	29.0	26.8	27.3	28.6	34.5	29.2 ⁵
Market Funds / Tangible Banking Assets (%)	86.7	86.5	90.1	89.8	89.2	88.5 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	18.3	20.0	18.1	17.4	14.8	17.7 ⁵
Gross Loans / Due to Customers (%)	780.6	752.2	1115.1	1045.2	1028.6	944.3 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

NWB Bank is a Dutch¹ credit institution that provides loans to water authorities (waterschappen) as well as to municipalities, provincial authorities and other public-sector entities in the Netherlands, including government-guaranteed social housing, healthcare, educational institutions and institutions in the field of sustainability. The bank does not provide any services to individuals or to companies not related to or not guaranteed by the public sector.

NWB Bank was founded in 1954 and is based in The Hague. The bank is owned by the Dutch water authorities (81%), the Dutch state (17%) and provinces (2%).

Detailed credit considerations

NWB Bank is a major lender to the Dutch public sector and is fully owned by Dutch public entities

With a long-standing track record in the Dutch public-sector financing business, NWB Bank is an established institution with a strong local franchise. With a long-term loan book of €54 billion as of 31 December 2023, the bank's overall market share of Dutch public-sector lending was over a third. We expect NWB Bank and its main competitor [BNG Bank N.V.](#) (Aaa/Aaa stable, a1²) to continue to dominate Dutch public-sector lending, given their ownership, public policy mandates and advantageous funding costs compared with those of commercial banks.

The government's involvement in NWB Bank is substantial. As per the institution's Articles of Association, only the State of the Netherlands and other legal entities governed by public law may hold the bank's shares. As a bank established with an explicit public policy mandate, NWB Bank benefits from an entrenched franchise in a niche market. These conditions result in exceptional stability in terms of asset quality, capital and profitability, and in a very low risk profile overall. We apply a positive qualitative adjustment of one notch in our scorecard to reflect this feature.

High asset quality is reflected in most of its assets being zero-risk-weighted

The Asset Risk score of aa1 reflects the very high intrinsic quality of NWB Bank's loan book and the outstanding government guarantee on most of it.

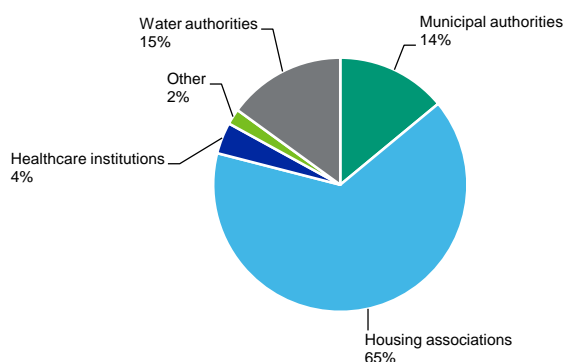
The bank lends exclusively to the Dutch public sector and has never recorded a credit loss on its loan book. Its problem loan ratio was 0.15% as of year-end 2023 (with all non-performing exposures being government guaranteed hence having no expected credit loss), yet historically close to nil. NWB Bank's public policy mandate translates into relatively large single-borrower concentrations

in the lending portfolio. However, this concentration risk is largely mitigated by the fact that the bank's lending relates to borrowers benefitting from a direct or indirect guarantee from the Dutch government (the promotional bank ratio was 94% of total exposures as of 31 December 2023). These exposures entail no regulatory capital charges (as a chartered bank, NWB Bank is subject to all banking regulations) and include Dutch municipal and provincial authorities, water authorities, social housing associations and the healthcare sector. The bank also provides export financing under the central government's export credit guarantee.

A very small portion of the lending portfolio (6% of the bank's loan book) does not benefit from any direct government support and, hence, is subject to capital charges. These exposures mainly include lending to government-owned drinking water companies, government-sponsored renewable energy projects and public-private partnerships (PPPs). NWB Bank purports to confine this PPP financing business to infrastructure and accommodation projects in the Netherlands on behalf of the Dutch central or local governments. While PPP and renewable energy project financing implies higher risk for the bank, these businesses will not significantly alter its creditworthiness and its overall risk profile because the total volume and the size of single exposures will remain limited, as stated by NWB Bank.

Exhibit 3

Breakdown of the loan portfolio by sector as of December 2023



Source: NWB Bank investor presentation

The bank recorded a loan loss provision reversal of €0.11 million in 2023, versus a €0.48 million reversal in 2022. The net reversal is a result of credit reviews that resulted in an improvement in the credit risk score for a number of clients,

Strong capital position, but leverage is high

The bank's strong capitalisation is reflected in a Capital score of aa2, which we adjust downwards by one notch due to high leverage.

NWB Bank's capitalisation is strong in relation to its low-risk assets. The bank's Common Equity Tier 1 (CET1) ratio was very strong at 41.1% as of 31 December 2023 (from 38.3% as of 31 December 2022) compared with the regulatory requirement of 13.77% for 2023³. The high risk-weighted capitalisation is due to the fact that a large proportion of the bank's lending is zero risk-weighted. RWAs represented only 7.0% of assets at end-December 2023 but we expect RWAs to slightly increase in the coming years as the bank is conducting more risk-weighted lending. NWB Bank's leverage ratio was 20.6% as of end-December 2023. Unadjusted for the promotional assets,⁴ the leverage ratio would be 3.1% at end-December 2023.

The bank distributed €60 million of dividends related to financial year of 2023, representing a payout ratio of 48% for 2023 (versus 42% for 2022).

Profitability is commensurate with the bank's specific mandate and low risk profile

NWB Bank's low profitability, commensurate with the bank's mandate and risk profile, is reflected in the assigned score of b1.

NWB Bank's profitability is low because it provides, in accordance with its mandate and mission, cost-effective funding to the Dutch public sector. As a bank owned by the Dutch public sector, NWB Bank does not have a profit-maximising objective. The net income

generated by the bank over the last four years ranged between 0.09% and 0.20% of tangible assets, which is commensurate with its low risk profile. Net income to tangible assets was 0.18% in 2023.

The bank's net profit was €126 million in 2023 versus €143 million in 2022. The decline in profit was driven by a 14% decrease in net interest income to €261 million in 2023, due to the discontinuation of cheap TLTRO funding and by an effective hedging that makes interest income and expenses moving almost linearly. Operating with a relatively small staff (131 employees as of 31 December 2023), NWB Bank's efficiency is good. The bank's overall cost-to-income ratio was 29% in 2023. Excluding bank tax and resolution levy, the cost-to-income ratio was 22%.

Funding profile and liquidity position are good

Our assigned combined liquidity score of baa2, three notches above the macro-adjusted score, reflects the diversified funding strategy of the bank, the strong standing in the capital markets of such promotional banks, together with its comfortable liquidity buffer and its material drawing capacity.

Similar to most peers in Europe, NWB Bank is entirely wholesale funded. The bank issues debt in multiple currencies and markets, subscribed by a wide array of investors. This funding strategy is prudent and similar to that of most other European promotional lenders.

NWB Bank's asset and liability management entails some maturity mismatches. The bulk of outstanding funding has maturities between one and five years (albeit with a higher share of funding of more than ten years compared to the other promotional banks), whereas a greater proportion of assets have maturities above five years. In addition to liquidity risk, these maturity mismatches could have negative implications for NWB Bank's interest margins, if for instance the bank's spreads would rise significantly for a prolonged period and imply an increase in the refinancing costs of outstanding loans. However, refinancing risks on the outstanding loan portfolio are currently very limited.

Liquidity risk is managed through a liquidity buffer consisting of highly liquid assets and cash (€12.5 billion as of December 2023), as well as an immediate drawing capacity on the ECB, collateralised by public-sector loans already pledged by NWB Bank at the Dutch central bank (€13.8 billion as of year-end 2023). The bulk of the bank's loan book is eligible as collateral for central bank funding. In November 2022, NWB Bank repaid all the TLTRO funds for a total amount of €11 billion after the ECB has recalibrated the advantageous borrowing conditions.

Funding gaps are maintained within reasonable limits and are compatible with NWB Bank's good standing in the capital markets. The European Commission's decision to include bonds issued by promotional banks (banks where lending to the public sector represents more than 90% of total loans) within level 1 category assets (the highest quality of high-quality liquid assets) is also favorable for NWB Bank. It has further enhanced financial institutions' appetite for the bank's securities.

As of 31 December 2023, NWB Bank's liquidity coverage ratio (LCR) was 160% and its net stable funding ratio (NSFR) was 133%.

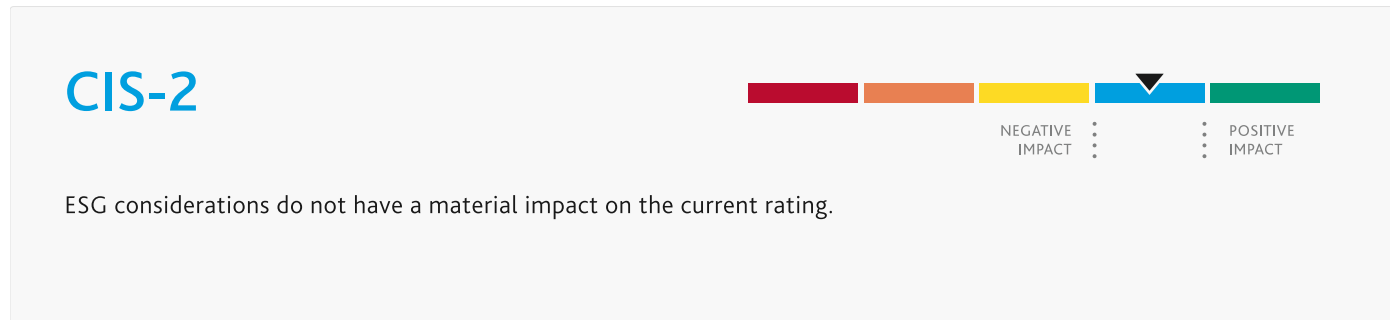
These factors are reflected in the bank's Combined Liquidity score of baa2.

ESG considerations

Nederlandse Waterschapsbank N.V.'s ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

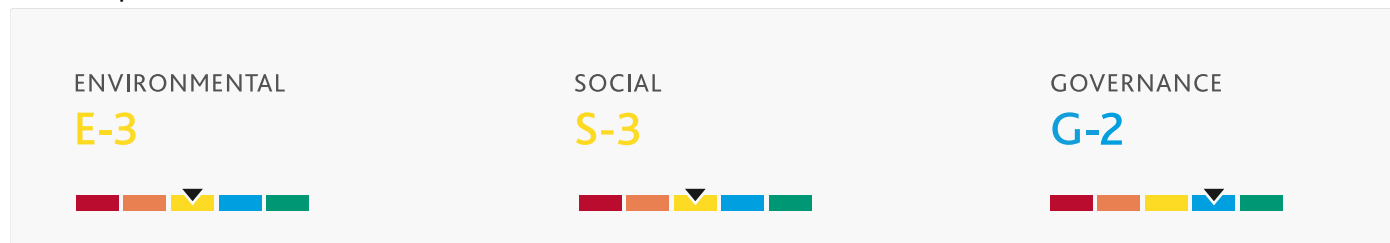


Source: Moody's Ratings

Nederlandse Waterschapsbank N.V.'s (NWB Bank) ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social factors on the rating to date, and neutral-to-low governance risks.

Exhibit 5

ESG issuer profile scores



Source: Moody's Ratings

Environmental

NWB Bank faces moderate exposure to environmental risks. Given its role as lender to the public sector, NWB Bank's exposure to environmental risks is closely aligned to that of the Dutch sovereign, which primarily stems from its exposure to physical climate risks, and in particular to rising sea levels.

Social

NWB Bank faces moderate social risks in relation to regulatory and litigation risks, which require the bank to meet strong compliance standards. The exposure to customer relation risks is however below the industry average, as the bank has no exposures to private companies and no retail activity with individuals.

Governance

NWB Bank faces neutral-to-low governance risks. The bank's risk management policies and procedures are in line with the industry's best practices. NWB Bank has a proven track record of contained risk appetite in its lending and investment activities. NWB Bank's simple legal structure reflects its domestic franchise as a public sector lender. Ownership is concentrated within the Dutch public sector, with water authorities owning 81%, the Dutch State 17% and provinces 2%. However, the large presence of independent administrators, the alignment between the bank's public policy role and the interest of the controlling shareholders as well as the domestic developed institutional framework mitigate associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure analysis

Despite its ownership and public mandate, NWB Bank falls in the scope of the EU Bank Resolution and Recovery Directive, which we consider an operational resolution regime. Nonetheless, the Single Resolution Board (SRB) announced that simplified obligations apply to NWB Bank and that the preferred resolution strategy was liquidation as per the normal insolvency law rather than bail-in. Thus, we apply our advanced Loss Given Failure (LGF) analysis, using our standard assumptions.

Our LGF analysis indicates a very low loss given failure for deposits and senior unsecured debt, resulting in a two-notch LGF uplift from the bank's Adjusted BCA.

Government support considerations

Despite the limitations on government support embedded in the Bank Resolution and Recovery Directive, the scope of which includes NWB Bank, we expect a very high probability of government support for the bank's deposits and senior unsecured debt, resulting in a two-notch uplift for both debt classes. Because of the bank's ownership and public policy mandate, the probability of support is considerably greater than that for purely commercial banks.

The very high support assumptions include the support that would come from (1) the Dutch public sector (including the central government) acting as the shareholder of the bank, and (2) the government stepping in to address systemic risk.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by unadjusted accounting data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors

Macro Factors							
Weighted Macro Profile	Strong +	100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.2%	aa1	↔	aa1			
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	44.0%	aa1	↔	aa2	Nominal leverage		
Profitability							
Net Income / Tangible Assets	0.2%	b1	↔	b1			
Combined Solvency Score		a1		a1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	86.7%	caa3	↔	baa3	Term structure	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	18.3%	baa2	↔	baa1	Additional liquidity resources		
Combined Liquidity Score		b2		baa2			
Financial Profile				a2			
Qualitative Adjustments				Adjustment			
Business Diversification				1			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				1			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				aa3 - a2			
Assigned BCA				a1			
Affiliate Support notching				0			
Adjusted BCA				a1			
Balance Sheet		in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure		
Other liabilities		630	0.9%	1,395	1.9%		
Deposits		7,494	10.5%	6,730	9.4%		
Preferred deposits		5,546	7.7%	5,268	7.4%		
Junior deposits		1,948	2.7%	1,461	2.0%		
Senior unsecured bank debt		61,113	85.3%	61,113	85.3%		
Preference shares (bank)		321	0.4%	321	0.4%		
Equity		2,050	2.9%	2,050	2.9%		
Total Tangible Banking Assets		71,608	100.0%	71,608	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	90.7%	90.7%	90.7%	90.7%	3	3	3	3	0	aa1
Counterparty Risk Assessment	90.7%	90.7%	90.7%	90.7%	3	3	3	3	0	aa1 (cr)
Deposits	90.7%	3.3%	90.7%	88.7%	2	3	2	2	0	aa2
Senior unsecured bank debt	90.7%	3.3%	88.7%	3.3%	2	2	2	-	-	-

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	aa1 (cr)	1	Aaa(cr)	
Deposits	2	0	aa2	2		Aaa
Senior unsecured bank debt	-	-	-	2	Aaa	Aaa

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 7

Category	Moody's Rating
NEDERLANDSE WATERSCHAPSBANK N.V.	
Outlook	Stable
Counterparty Risk Rating	Aaa/P-1
Bank Deposits	Aaa/P-1
Baseline Credit Assessment	a1
Adjusted Baseline Credit Assessment	a1
Counterparty Risk Assessment	Aaa(cr)/P-1(cr)
Issuer Rating	Aaa
Senior Unsecured	Aaa
Commercial Paper	P-1
Other Short Term	(P)P-1

Source: Moody's Ratings

Endnotes

[1 The Netherlands - Banking System Profile](#)

[2](#) The ratings shown are BNG's deposit rating, senior unsecured debt rating and Baseline Credit Assessment

[3](#) The prudential requirement includes a 8% Pillar 1 requirement, a 2.25% Pillar 2 requirement, a 2.5% capital conservation buffer, and a 1.02% countercyclical buffer.

[4](#) I.e. if the bank's promotional assets remained included in the denominator of the ratio

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