

# RatingsDirect®

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## Update: Nederlandse Waterschapsbank N.V.

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# Update: Nederlandse Waterschapsbank N.V.

## Ratings Score Snapshot

### Issuer Credit Rating

AAA/Stable/A-1+

SACP: a+ →

Support: +5 →

Additional factors: 0

Anchor	bbb+	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Strong	+1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	+5
Group support	0
Sovereign support	0

Issuer credit rating
<b>AAA/Stable/A-1+</b>

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Key strengths

Almost certain likelihood of extraordinary support from the Dutch Ministry of Finance.

Leading lender to Dutch public authorities, supporting better asset quality than that of traditional commercial banks.

Extremely strong capital base.

### Key risks

Limited revenue diversification, with business prospects linked to Dutch public sector funding needs.

Moderate capital generation due to low lending margins and exposure to capital markets volatility.

*We continue to equalize NWB Bank's issuer credit rating (ICR) with our rating on the Dutch government (AAA/Stable/A-1+), as long as we expect the latter would remain willing and able to provide extraordinary support to the bank if and when needed.* We base our view on the bank's important public sector mandate and its combined ownership by the Dutch state (17%) and other Dutch public authorities (83%), with domestic water authorities owning 81% of NWB Bank's capital. Specifically, our rating considers the bank's:

- Critical role as one of two public sector banks with a public policy role. In our view, NWB Bank plays a vital role in providing low-cost, stable, and constant financing to the Dutch public sector. This role also supports the Dutch public sector in its role in the country's achievement of the Paris goals related to the long-term containment of global temperature increases to well below 2°C. In this regard, we consider that the water authorities--the bank's major shareholders--are set up to deal with climate adaptation and mitigation in the Netherlands. Furthermore, we think that NWB Bank's links with other entities, such as WSW and WfZ--both of which benefit from government guarantees--increase the government's incentive to provide extraordinary support to NWB Bank; and

- Integral link with the government, as we consider the bank an extension of the government. NWB Bank's articles of association limit its ownership and lending activities to the public sector, which supports our view of the link between the bank and the government. Although the government is not involved in the day-to-day running of the bank, it maintains close oversight over its strategy and capital policy.

Our assessment also factors in the EU's Bank Recovery and Resolution Directive (BRRD). Our longstanding view is that the BRRD does not appear to prevent the Dutch government, in its capacity as existing shareholder of a bank, from granting support to Dutch-domiciled government-related entities in going-concern situations—even if they are subject to BRRD.

***NWB Bank's public mandate supports its significant position in a niche, low-risk, market.*** The bank provides about 40% of the Dutch public sector's financing needs and we expect that it will remain a leading player in this market segment, together with its main competitor BNG Bank N.V. Competition in this segment is quite contained, especially from private commercial banks. Although private banks' interest in financing the domestic public sector fluctuates over time, especially regarding sustainability related projects, such a role could not be easily taken over by private sector commercial banks. They cannot compete with the low-cost financing that NWB Bank can provide.

***Social housing entities dominated NWB Bank's portfolio at end-2021 and represent 65% of its total loans.***

Municipalities and water authorities follow at 14% and 11% of the total loan book, with health care about 7% of the total portfolio. Over the past few years, NWB bank has started to invest in different government-related asset classes, such as the renewable energy and infrastructure sector. We understand the bank intends to become more involved in this type of financing but we expect such risk weighted investment will continue to constitute only up to 10% of the loan portfolio (3% at end-2021).

***The bank's low-risk customer base and niche market positioning support its earning capacity through the credit cycle, in our view.*** However, the business and geographical concentration inherent in its business model could also pose some risks. That said, we expect the bank's operating revenues—excluding the volatile result on financial transactions—to remain broadly stable at €240 million-€260 million in 2022-2024. We project that the bank will maintain a relatively stable net-interest margin, being in the position to transfer higher funding costs to its clients in that period without sacrificing its market share.

***NWB Bank will maintain its conservative risk profile.*** The bank's low-risk lending activity (at least 90% of its total lending exposures) supports its stronger-than-industry average asset quality, with a nil loss experience, historically. Government risk dominates its portfolio, given the bank's focus on very low risk lending issued to, or guaranteed by, public authorities. In 2020, the bank broadened the objectives of its Articles of Association to be able to finance a wider range of government-related initiatives, especially in the field of sustainability. The formal amendment was necessary as its clients had been entering into partnerships with other parties, including parties outside the public sector. These include government-sponsored investment funds; partial government guarantees; minority shareholdings by water authorities, municipalities, provinces, or the State of the Netherlands; and co-financing with Invest-NL. At this stage, we expect the bank's NPE ratio, as well as its cost of risk, to remain negligible in 2022-2024.

**NWB Bank will continue to benefit from very strong capitalization thanks to its low-risk exposures and prudent capital management.** At end-2021, we estimate that our risk-adjusted capital (RAC) ratio could have been 24.3%-24.8%, well above the level typically exhibited by commercial banks. We anticipate that the RAC ratio will remain very comfortably above the 15% mark over the next two years. Our forecasts assume an average net income of about €120 million-€140 million per year over the next two years, and increasing risk-weighted assets (RWAs), reflecting the bank's further expansionary activity. In particular, we include in our forecasts for the next two years a loan book outstanding increasing by 1%-2% in 2022-2024, cumulatively, and a cost-to-income ratio averaging 25%-26% on the back of increasing costs of supervision and compliance. Our profitability-related figures do not consider the impact of the volatile result on financial transactions, which is mostly the unrealised market value changes in derivatives and financial instruments, standing at negative €20 million in 2021.

**NWB Bank will continue to rely on wholesale funding, with well-diversified funding sources.** We view negatively the large share of short-term wholesale funding in the bank's funding base--which has decreased to below 25% in the past three years--because this funding resource is more confidence-sensitive. However, we understand NWB Bank mostly uses this funding to finance short-term loans to clients, cash collateral for hedging operations, cash holdings, and short-term, highly rated securities that act as a liquidity buffer. This recourse to short-term funding supports the low cost of liabilities, which is an absolute requirement for an efficient business model. We consider this acceptable for a government-owned bank because ownership will likely not change, and we see a strong correlation between the bank's own risk and the sovereign's. We would view such a reliance on short-term wholesale funding more negatively if it were a private bank.

We do not incorporate any negative rating adjustments into NWB Bank's funding profile and liquidity position because we consider many qualitative factors. The bank enjoys a large and diversified investor base, demonstrated by its currency funding mix (64% euro, 17% U.S. dollar, 6% Australian dollar, 3% sterling, and 10% other), its geographic funding mix (52% Europe, 21% Asia, 20% Americas, 4% MEA, and 3% Australia), and its investor type funding base (40% central banks, 25% banks, and 22% asset managers, and 13% insurance and pension funds).

NWB Bank's liquidity position is also more resilient than our metrics show, thanks to its large investment portfolio comprising highly liquid securities. Lastly, in contrast with most banks we rate, the majority of NWB Bank's loan book is solvency free and could be pledged as collateral at De Nederlandsche Bank in case of liquidity stress.

## Outlook

Our stable outlook on NWB Bank reflects that on The Netherlands. For as long as we consider support from the Dutch government to be almost certain, and provided the bank maintains an adequate financial standing, the long-term issuer credit rating on NWB is unlikely to diverge from that on the sovereign.

As a result, any rating action on The Netherlands would likely result in a similar rating action on the bank. Nevertheless, we expect NWB Bank's financial risk profile to remain resilient over the next two years, despite the bank's intention to widen the scope of its strategy, providing more financing to government sponsored projects, albeit not directly guaranteed.

## Key Metrics

Nederlandse Waterschapsbank N.V.--Key Ratios And Forecasts					
--Fiscal year ended Dec. 31 --					
(%)	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	8.6	40.7	0.6-0.7	1.7-2.1	2.8-3.4
Growth in customer loans	2.7	0.6	0.5-0.7	0.9-1.1	0.7-0.9
Growth in total assets	11.1	(10.2)	0.3-0.4	0.5-0.6	0.4-0.5
Net interest income/average earning assets (NIM)	0.4	0.5	0.5-0.5	0.5-0.5	0.5-0.5
Cost to income ratio	22.2	27.4	25.7-27.0	25.7-27.0	25.7-27.0
Return on average common equity	4.5	6.5	6.0-6.7	5.8-6.4	5.6-6.2
Return on assets	0.1	0.1	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	N/A	24.5	25.1-26.4	25.7-27.0	26.3-27.6

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

## Key Statistics

Table 1

Nederlandse Waterschapsbank N.V. Key Figures					
--Year-ended Dec. 31--					
(Mil. €)	2021	2020	2019	2018	2017
Adjusted assets	96,013	106,876	96,200	83,712	87,121
Customer loans (gross)	54,399	54,061	52,663	50,287	50,302
Adjusted common equity	1,846	1,775	1,735	1,702	1,622
Operating revenues	266	189	174	186	218
Noninterest expenses	73	54	49	49	48
Core earnings	121	81	87	100	123

Table 2

Nederlandse Waterschapsbank N.V. Business Position					
--Year-ended Dec. 31--					
(%)	2021	2020	2019	2018	2017
Return on average common equity	6.5	4.5	5.4	6.0	7.8

Table 3

Nederlandse Waterschapsbank N.V. Capital And Earnings					
--Year-ended Dec. 31--					
(%)	2021	2020	2019	2018	2017
Tier 1 capital ratio	45.0	53.5	61.0	74.0	68.0
Adjusted common equity/total adjusted capital	85.2	84.7	84.4	84.2	83.5
Net interest income/operating revenues	107.5	129.1	122.4	125.8	126.6
Market-sensitive income/operating revenues	(7.5)	(29.1)	(22.4)	(25.8)	(26.6)

**Table 3**

<b>Nederlandse Waterschapsbank N.V. Capital And Earnings (cont.)</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cost to income ratio	27.4	22.2	28.2	26.3	22.0
Preprovision operating income/average assets	0.2	0.1	0.1	0.2	0.2
Core earnings/average managed assets	0.1	0.1	0.1	0.1	0.1

**Table 4**

<b>Nederlandse Waterschapsbank N.V. Risk Position</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Growth in customer loans	0.6	2.7	4.7	(0.0)	(1.2)
Total managed assets/adjusted common equity (x)	52.0	60.2	55.4	49.2	53.7

**Table 5**

<b>Nederlandse Waterschapsbank N.V. Funding And Liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Long-term funding ratio	63.6	73.4	63.9	62.9	65.3
Stable funding ratio	85.6	100.1	83.7	83.9	80.3
Short-term wholesale funding/funding base	29.8	19.0	28.7	29.3	27.2
Broad liquid assets/short-term wholesale funding (x)	0.5	0.8	0.5	0.6	0.6
Broad liquid assets/total assets	13.5	11.9	11.1	14.2	13.2
Short-term wholesale funding/total wholesale funding	29.6	18.9	28.6	29.1	27.1

## Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings Detail (As Of July 29, 2022)\*****Nederlandse Waterschapsbank N.V.**

Issuer Credit Rating	AAA/Stable/A-1+
Certificate Of Deposit	
<i>Local Currency</i>	A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Senior Unsecured	AAA
Short-Term Debt	A-1+

**Issuer Credit Ratings History**

24-Nov-2015	AAA/Stable/A-1+
27-May-2015	AA+/Positive/A-1+
02-Dec-2013	AA+/Stable/A-1+

**Sovereign Rating**

Netherlands	AAA/Stable/A-1+
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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