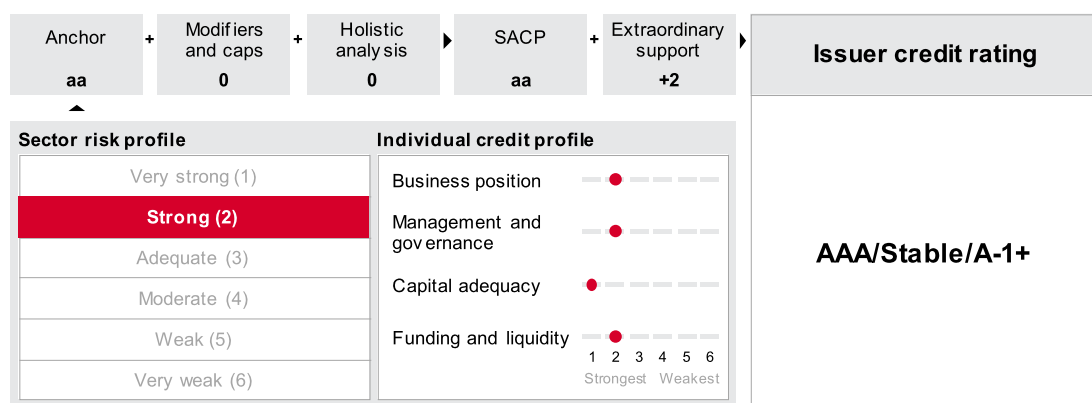


Research Update:

# Nederlandse Waterschapsbank N.V. 'AAA/A-1+' Ratings Affirmed Following Transition To New Methodology; Outlook Stable

October 24, 2024



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## Overview

- We think that our revised criteria for rating public sector funding agencies (PSFAs), published July 26, 2024, better captures the underlying relative creditworthiness of Nederlandse Waterschapsbank N.V. (NWB), considering the bank's business model and its leading role in providing financing to the low-risk Dutch public sector.
- We improved the bank's stand-alone credit profile (SACP) by two notches to 'aa' as we are more closely linking our analysis to the low credit risk profile of the underlying sectors where the bank lends and because of our view of its strong business position when compared to other PSFAs we rate.
- We also revised to extremely high from almost certain our assessment of the likelihood of NWB receiving government support since we now incorporate some of the government support features in our assessment of the bank's SACP.
- We affirmed our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on NWB. The outlook is stable.

## Rating Action

On Oct. 24, 2024, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on the Nederlandse Waterschapsbank N.V. (NWB). The outlook is stable.

We also affirmed our 'AAA' issue rating on NWB's senior unsecured debt and 'A-1+' short-term rating on the bank's commercial paper and certificate of deposit.

## Outlook

The stable outlook reflects our view that NWB will maintain its important role in providing financing to the low-risk public sector in the Netherlands. We also expect NWB's management policies will mitigate risks by maintaining solid capital adequacy and strong liquidity, supported by the broad funding base.

## Downside scenario

We could lower our ratings if NWB's SACP deteriorated by more than one notch, following, for example diminished market share or changes in the management policies and procedures which would lead to a weaker capital or liquidity position. We could also lower the rating on NWB if we downgraded the Netherlands (unsolicited AAA/Stable/A-1+).

## Rationale

The affirmation follows the application of our revised criteria "Methodology For Rating Non-U.S. Public-Sector Funding Agencies," published July 26, 2024, on RatingsDirect. Under this methodology, we assess the SACP of NWB as 'aa'. The criteria defines a PSFA's mission as providing cost-efficient lending to public-sector entities in their country of domicile. We think this definition better captures risks to NWB's business model since the bank lends predominately to the Dutch public sector.

The ratings on NWB are supported by our assumption that the bank will continue playing a key role in providing financing to the Dutch public sector and upheld a strong market position when compared to other PSFAs we rate. We now more closely link our assessment of NWB's SACP to the low credit risk profile of the underlying sectors where the bank operates, and which we expect will continue being further supported by government guarantees. Our ratings also incorporate NWB's management efforts in maintaining solid capital buffer, robust liquidity, and diversified funding.

We now see an extremely high likelihood of government support in the event of financial distress, compared with almost certain previously. This is because we capture some of the government support features such as guarantees provided to social housing associations in our assessment of the bank's sector risk profile.

## **Sector risk profile: The government guarantees allocated to the social housing providers NWB lends to underpin our assessment of strong sector risk profile**

NWB has a solid track record of fulfilling its public policy role of providing low-cost financing to

Dutch municipalities and social housing providers. The bank was founded in 1954 to help the water authorities raise the enormous investment needed to protect the Netherlands against water-related risks. The water authorities own 81% of the bank, 17% is owned by the Dutch state, and 2% by the provinces.

We view the overall sector risk profile of NWB as strong. About 62% of NWB's long-term lending is to the social housing sector, 15% to water authorities, and 12% to municipalities.

We view the industry risk for all Netherlands-based social housing providers as low (see "Regulatory Framework Assessment: Social Housing Providers In The Netherlands", published on July 23, 2024). In our view, the very strong regulatory framework assessment is supported by the Dutch housing providers benefiting from guaranteed loans for its social assets through the guarantee fund Waarborgfonds Sociale Woningbouw (WSW).

We also view Dutch water authorities as operating under evolving but balanced institutional framework. In our view, the Dutch water authorities have insufficient resources to cover their spending needs. They tend to finance large capital programs with borrowing, which leads to generally high indebtedness in the sector. We believe that this high indebtedness is only partly offset by the water authorities' tax-raising autonomy, as this could be sensitive to political considerations and significant increases in the tax rates (see "Institutional Framework Assessment: Dutch Water Authorities' Tax-Raising Autonomy Partly Offsets Their High Indebtedness", published on Oct. 24, 2024 on RatingsDirect).

We think that Dutch municipalities operate in a supportive institutional framework marked by a large support from the central government in the form of grants (see "Institutional Framework Assessment: Dutch Municipalities Benefit From Central Government Transfers", published on Oct. 17, 2024, on RatingsDirect).

### **Individual credit profile: Strong market share, sophisticated management, robust capitalization, and strong liquidity with diversified funding base support the ICP**

NWB's public mandate supports its significant position in a niche, low-risk, market. The bank provides about 35% of the Dutch public sector's financing needs and we expect that it will remain a leading player in this market, alongside its main competitor BNG Bank N.V. Competition in the segment is quite contained, especially from private commercial banks. NWB's market position compares in line with that of other rated PSFAs like Kommunalbanken and Kommuninvest that have a similar market share of around 50% of lending to the respective public sector.

We assume that social housing entities will continue to dominate NWB's portfolio. Over the past few years, NWB has invested 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 expect it will constitute only about 10% of the loan portfolio (6% at year-end 2023, without municipal or sovereign guarantees).

We expect that NWB will maintain a very strong capitalization, thanks to its low-risk exposures and prudent capital management. Our risk-adjusted capital (RAC) ratio after adjustments for NWB now factors in a charge for single-name concentration on the banks' underlying borrowers. At year-end 2023, we estimate that NWB's RAC after adjustments equaled to 18.2%, above the 15% threshold for the very strong category.

The bank's RAC ratio before adjustments improved to 25.2% in December 2023 from 23.4% a year prior. The ratio has increased because of a rebalancing of exposures which have reduced toward

riskier segments, mainly to corporates and to financial institutions and have increased toward less risky segments such as governments and central banks. The other factor contributing to the stronger RAC ratio is a 3.3% year-over-year increase in the total adjusted capital.

We view NWB's overall funding and liquidity profile as strong. We think the bank will continue to rely on wholesale funding, with well-diversified funding sources and a one-year funding ratio of above 1.0x. The bank enjoys a large and diversified investor base, demonstrated by its currency funding mix (42% euro, 50% U.S. dollar, 1% Australian dollar, and 7% British pound sterling), its geographical funding mix (52% Europe, 21% Asia, 20% Americas, 4% Middle East and Africa, and 3% Australia), and its investor type funding base (40% central banks, 25% banks, 22% asset managers, and 13% insurance and pension funds).

Our 12-month liquidity ratio was strong at 1.16x as of June 2024 after including undrawn loan commitments. This indicates that NWB would be able to cover all committed lending and liabilities for at least one year, even under extremely stressed market conditions and without access to the capital markets.

We also think NWB has direct and meaningful access to the short-term liquidity from the European Central Bank (ECB) since most of the bank's loans could be pledged as collateral at the ECB. The credit line NWB can draw upon at the ECB due to this collateral equaled almost €13.7 billion as of Oct. 3, 2024. We think that ECB has both the willingness and ability to provide liquidity support to NWB in case of need.

### **Extraordinary support: Extremely high likelihood of support from the Dutch government**

The 'AAA' rating on NWB is supported by its critical role and very strong link with the Dutch government. Therefore, we foresee an extremely high likelihood that the central government would provide timely and sufficient extraordinary support to NWB in case of need. Specifically, we look at NWB's:

- Critical role as one of the state's two public sector banks with a public policy mandate. NWB Bank plays a vital role in providing low-cost, stable, constant financing to the Dutch public sector, which is a top public policy goal. Private sector commercial banks are typically willing to finance only a small part of the public sector's financing needs due to lower margins and increased illiquidity and are not able to compete with the low-cost financing that NWB provides. In the absence of public sector banks, the government would likely have to finance the public sector directly; and
- Very strong link with the ownership--the Dutch Water authorities (81%), Dutch state (17%), and the provinces (2%) and no explicit guarantees on the bank's debt. NWB is subject to EU state aid rules and The Bank Recovery and Resolution Directive (BRRD). Our view is that the BRRD does not appear to prevent the Dutch government, in its capacity as an 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. The bank's strategy and capital/dividend policy is approved by the Ministry of Finance through regular meetings. NWB's default, while very unlikely, could result in significant reputational damage for the government.

Table 1

**Nederlandse Waterschapsbank N.V.--Selected indicators**

(Mil. €)	--Year ended Dec. 31--				
	2023	2022	2021	2020	2019
<b>Business position</b>					
Total adjusted assets	75,909	73,285	96,019	106,882	96,205
Customer loans (gross)	56,113	54,254	54,399	54,061	52,663
Growth in loans (%)	3.4%	-0.3%	0.6%	2.7%	4.7%
Net interest income	261	302	286	244	213
Noninterest expenses	87	103	93	97	88
<b>Capital and risk position</b>					
Total liabilities	73,849	71,290	93,797	104,735	94,089
Total adjusted capital	1,990	1,927	2,166	2,095	2,055
Assets/capital (%)	38	38	44	51	47
RAC ratio before adjustments (%)	25.2	23.4	25.9	23.7	30.0
RAC ratio after adjustments (%)*	18.2	N/A	N/A	N/A	N/A
Gross nonperforming assets/gross loans (%)	0	0	0	0	0
<b>Funding and liquidity§</b>					
Liquidity ratio with loan disbursement (one year)	1.16	N/A	N/A	N/A	N/A
Liquidity ratio without loan disbursement (one year)	1.22	N/A	N/A	N/A	N/A
Funding ratio (one year)	1.2	N/A	N/A	N/A	N/A

\*RAC ratios after adjustments are not available for 2019-2022 as we changed the Criteria §Funding and liquidity ratios for 2023 are as of end-June 2023, and 2019-2022 are not available as we changed the Criteria. Funding ratio is without loan disbursements. RAC--Risk-adjusted capital. N/A--Not applicable.

**Ratings Score Snapshot**

<b>Issuer credit rating</b>	<b>AAA/Stable/A-1+</b>
Sector risk profile	Strong
Individual credit profile:	
Business position	Strong
Management & governance	Strong
Capital adequacy	Very strong
Funding & liquidity	Strong
Anchor	aa
Modifiers and caps	0
Holistic analysis	0
Stand-alone credit profile	aa

Issuer credit rating	AAA/Stable/A-1+
Extraordinary support	+2

## Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

## Related Research

- Institutional Framework Assessment: Dutch Water Authorities' Tax-Raising Autonomy Partly Offsets Their High Indebtedness, Oct. 24, 2024
- The Netherlands, Oct. 21, 2024
- Institutional Framework Assessment: Dutch Municipalities Benefit From Central Government Transfers, Oct. 17, 2024
- Regulatory Framework Assessment: Social Housing Providers In The Netherlands , July 23, 2024

## Ratings List

### Ratings Affirmed

#### Nederlandse Waterschapsbank N.V.

Issuer Credit Rating	AAA/Stable/A-1+
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#### Nederlandse Waterschapsbank N.V.

Senior Unsecured	AAA
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Certificate Of Deposit	A-1+
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Commercial Paper	A-1+
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