

Long-Term Issuer Rating: AAA
Outlook: stable

Short-Term Rating: L1

Preferred Sen. Unsec. Debt: AAA

17 September 2019

Rating Action:

Creditreform Rating affirms Nederlandse Waterschapsbank N.V.'s (Group) long-term issuer rating at 'AAA' (Outlook: stable)

Creditreform Rating (CRA) affirms Nederlandse Waterschapsbank N.V. (NWB) long-term issuer rating at 'AAA' and the short-term rating at 'L1'. The rating outlook is stable. In addition, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'AAA'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating action paper. In addition, we refer to the more detailed report of the Group from June 2018 on our homepage.

Key Rating Drivers

CRA has affirmed the rating of NWB and its debt instruments as a result of its periodic updating process for the following reasons:

- Very strong regulatory capital figures
- Impressive cost-to-income ratios as well as sound earnings figures
- Outstanding quality of assets without any loan loss throughout its history
- Stability and high probability of support through the public shareholders

Rating Rationale

NWB's credit rating affirmation is primarily driven by its strong capitalization, stable and satisfying profitability figures, the outstanding asset quality and its role in financing the Dutch local authorities and public sector intuitions.

Profitability

NWB reveals a decrease in its net profit year-over-year by 23m EUR (-19%). Driver of the decrease was a lower amount of net interest income in comparison to the previous year due to less attractive rates, especially in its short-term funding. By contrast, the amount of operating expense remained roughly unchanged year-over-year.

Despite the declining net profit, NWB displays still satisfying profitability figures and impressive cost-to-income ratios (CIR of 26.3% in 2018). With regard to the fiscal year 2019, NWB projects a further decline in its net profit. However, because of the high level of costs efficiency we are still confident that the bank is able to maintain a satisfying level of profitability.

Asset Situation and Asset Quality

NWB's asset-quality is at an outstanding level. Throughout its entire history, NWB has never suffered a loan loss. Moreover, the bank reveals an impressive risk-weighted asset ratio of 3.1%. The low RWA ratio can be explained through the bank's business model of lending to public authorities and entities, which are ultimately backed by government bodies with a risk weight of 0%.

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Because of the role and the business model of NWB, we assume that the quality of assets will remain stable at an outstanding level. However, it is in the nature of this business model that the bank's asset quality is highly dependent on wellbeing of the Dutch public sector.

Refinancing and Capital Quality

NWB reveals very strong regulatory capital figures. A CET1 ratio of 64.6% and a total capital ratio of 76.8% are outstanding (CET1 minimum requirement of 7.625% in 2018; 9.25% in 2019). By contrast, the bank displays a relatively low leverage ratio of 2.6%. However, this is a result of the bank's business model as a promotional lender and reflects the low risk respectively the risk-weights of its loans.

Moreover, the amendment of the European Capital Requirement Regulation CRR II in June 2019 includes an adjustment for the leverage ratio for promotional banks which will boost the leverage ratio of NWB and with that eliminate the general problem of promotional banks with this figure.

The ratings of NWB's bank capital and debt instruments are affected due to our rating mechanism. Due to the lack of Tier 2 Capital and a relatively low amount of AT1 Capital, CRA does not assign ratings for this bank capital classes.

Liquidity

In our opinion, the overall liquidity situation of the bank is satisfactory and ensured by its solely public sector shareholders and its role in the Dutch public sector.

Outlook

We consider the outlook of NWB's long-term issuer rating and its debt instruments as stable. This reflects our view that NWB is likely to keep its role in the Dutch public sector, its profitability in the upcoming years while maintaining a high level of capitalization.

Scenario Analysis

In a scenario analysis, NWB's rating did not change in the "best case" scenario and developed slightly worse in the "worst case" scenario. The ratings of preferred senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

An upgrade of NWB's long-term issuer rating is with regard to the current rating of 'AAA' not possible.

By contrast, a downgrade of NWB's long-term issuer credit rating and its debt instruments is likely if we see that NWB loses its role in Dutch public sector. In particular, the bank's rating is especially sensitive to changes in the creditworthiness of the Netherlands as we see a high degree of linkage between NWB and the Dutch public sector. In addition, a massive decrease in NWB's capitalization, its asset-quality or a lasting reduction of its profitability might lead to a downgrade of the NWB's long-term issuer rating and its debt instruments as well.

CRA's rating actions at a glance

Nederlandse Waterschapsbank N.V. (Group):

- Long-Term Issuer Rating affirmed at 'AAA', stable outlook
- Short-term rating affirmed at 'L1'
- Reclassification of the senior unsecured debt rating to preferred senior unsecured debt and affirmed at 'AAA'

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **AAA / stable / L1**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred senior unsecured debt (PSU): **AAA**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	27.04.2018	08.05.2018	AAA / stable / L1
Monitoring	04.07.2018	06.07.2018	AAA / stable / L1
Rating Update	17.09.2019	19.09.2019	AAA / stable / L1
Bank Capital and Debt Instruments	Rating Date	Publication Date	Result
Senior Unsecured / T2 / AT1 (Initial)	27.04.2018	08.05.2018	AAA / A+ / A-
Senior Unsecured / T2 / AT1	04.07.2018	06.07.2018	AAA / n.r. / n.r.
PSU	17.09.2019	19.09.2019	AAA

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	177.000	218.000	276.000	-15,2	234.000
Net Fee & Commission Income	-	-	-	-	-
Net Insurance Income	-	-	-	-	-
Net Trading Income	-6.000	-25.000	-58.000	-17,2	-48.000
Equity Accounted Results	-	-	-	-	-
Dividends from Equity Instruments	-	-	-	-	-
Other Income	-	-	-	-	-
Operating Income	171.000	193.000	218.000	-14,7	186.000
Expenses (€000)					
Depreciation and Amortisation	2.000	2.000	2.000	+0,0	2.000
Personnel Expense	8.000	8.000	8.000	+25,0	10.000
Tech & Communications Expense	NA	NA	2.600	+7,7	2.800
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	29.000	34.000	35.400	-3,4	34.200
Operating Expense	39.000	44.000	48.000	+2,1	49.000
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	132.000	149.000	170.000	-19,4	137.000
Asset Writedowns	-	-	-	-	-
Net Income (€000)					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	132.000	149.000	170.000	-19,4	137.000
Income Tax Expense	37.000	42.000	47.000	-21,3	37.000
Discontinued Operations	-	-	-	-	-
Net Profit (€000)	95.000	107.000	123.000	-18,7	100.000
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	-	-	-	-	-

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	22,81	22,80	22,02	+4,33	26,34
Cost Income Ratio ex. Trading (CIRex)	22,03	20,18	17,39	+3,55	20,94
Return on Assets (ROA)	0,10	0,11	0,14	-0,02	0,12
Return on Equity (ROE)	6,79	7,10	7,56	-1,76	5,79
Return on Assets before Taxes (ROAbT)	0,14	0,16	0,20	-0,03	0,16
Return on Equity before Taxes (ROEbT)	9,44	9,89	10,44	-2,50	7,94
Return on Risk-Weighted Assets (RORWA)	4,75	3,59	4,59	-0,78	3,81
Return on Risk-Weighted Assets before Taxes (RORWAbT)	6,61	5,00	6,34	-1,13	5,22
Net Interest Margin (NIM)	0,19	0,20	0,25	-0,03	0,22
Pre-Impairment Operating Profit / Assets	0,14	0,16	0,20	-0,03	0,16
Cost of Funds (COF)	1,79	1,58	1,57	+0,06	1,63
Change in %Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	6.766.000	7.246.000	9.638.000	+6,2	10.237.000
Net Loans to Banks	8.908.000	10.508.000	8.755.000	-47,6	4.590.000
Net Loans to Customers	63.576.000	64.496.000	60.973.000	+0,7	61.405.000
Total Securities	3.851.000	3.925.000	3.697.000	-11,0	3.291.000
Total Derivative Assets	8.204.000	8.228.000	4.048.000	+2,8	4.163.000
Other Financial Assets	-	-	-	-	-
Financial Assets	91.305.000	94.403.000	87.111.000	-3,9	83.686.000
Equity Accounted Investments	-	-	-	-	-
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	-	-	-	-
Tangible and Intangible Assets	8.000	8.000	8.000	+0,0	8.000
Tax Assets	-	-	-	-	8.000
Total Other Assets	1.000	3.000	4.000	> +100	13.000
Total Assets	91.314.000	94.414.000	87.123.000	-3,9	83.715.000

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans/ Assets	69,62	68,31	69,98	+3,37	73,35
Risk-weighted Assets/ Assets	2,19	3,16	3,08	+0,06	3,14
NPLs/ Net Loans to Customers	0,00	0,00	0,00	+0,00	0,00
NPLs/ Risk-weighted Assets	0,00	0,00	0,00	+0,00	0,00
Potential Problem Loans/ NPLs	-	0,04	0,03	-0,01	0,01
Reserves/ NPLs	0,00	0,00	0,00	+0,00	0,00
Reserves/ Net Loans	0,00	0,00	0,00	+0,00	0,00
Net Write-offs/ Net Loans	0,00	0,00	0,00	+0,00	0,00
Net Write-offs/ risk-weighted Assets	0,00	0,00	0,00	+0,00	0,00
Change in %Points					

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	2.455.000	2.692.000	1.154.000	+32,0	1.523.000
Total Deposits from Customers	-	-	-	-	-
Total Debt	67.680.000	67.558.000	66.745.000	-0,2	66.626.000
Derivative Liabilities	14.302.000	16.482.000	11.402.000	-36,4	7.252.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	5.371.000	6.060.000	6.107.000	+6,9	6.528.000
Total Financial Liabilities	89.808.000	92.792.000	85.408.000	-4,1	81.929.000
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	29.000	22.000	-	-	-
Provisions	24.000	30.000	32.000	-15,6	27.000
Total Other Liabilities	54.000	63.000	55.000	-40,0	33.000
Total Liabilities	89.915.000	92.907.000	85.495.000	-4,1	81.989.000
Total Equity	1.399.000	1.507.000	1.628.000	+6,0	1.726.000
Total Liabilities and Equity	91.314.000	94.414.000	87.123.000	-3,9	83.715.000

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	1,53	1,60	1,87	+0,19	2,06
Leverage Ratio	2,10	2,30	2,50	+0,10	2,60
Phased-in: Common Equity Tier 1 Ratio (CET1)	69,80	50,50	60,50	+4,10	64,60
Phased-in: Tier 1 Ratio (CET1 + AT1)	79,80	61,20	72,50	+4,30	76,80
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	79,80	61,20	72,50	+4,30	76,80
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	-	-	55,97	+5,62	61,59
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	-	-	67,91	+5,86	73,77
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	-	-	67,91	+5,86	73,77
Change in %Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans/ Deposits (LTD)	-	-	-	-	-
Interbank Ratio	362,85	390,34	758,67	-457,29	301,38
Liquidity Coverage Ratio	134,00	146,00	179,00	+43,00	222,00
Customer Deposits / Total Funding (excl. Derivates)	-	-	-	-	-
Net Stable Funding Ratio (NSFR)	117,00	123,00	126,00	+3,00	129,00
Change in %Points					

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 54 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings, the methodology for the rating of bank capital and unsecured debt instruments as well as the methodology for government-related banks in conjunction with Creditreform`s basic document "Rating Criteria and Definitions".

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document "Rating Criteria and Definitions" is published on the following homepage:

www.creditreform-rating.de/de/regulatory-requirements/.

On 17 September 2019, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Nederlandse Waterschapsbank N.V. (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

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