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## Research Update:

# Netherlands-Based Waarborgfondsvoor de Zorgsector 'AAA' Rating Affirmed; Outlook Remains Stable

**Primary Credit Analyst, Sovereigns And International Public Finance:**

Jean-Baptiste Legrand, London (44) 20-7176-3609; [jb.legrand@spglobal.com](mailto:jb.legrand@spglobal.com)

**Secondary Credit Analyst, Sovereigns And International Public Finance:**

Ratul Sood, London +44 (0) 20 7176 6536; [ratul.sood@spglobal.com](mailto:ratul.sood@spglobal.com)

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## Research Update:

# Netherlands-Based Waarborgfonds voor de Zorgsector 'AAA' Rating Affirmed; Outlook Remains Stable

## Overview

- On July 15, 2016, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on Dutch health care guarantee fund Waarborgfonds voor de Zorgsector (WfZ).
- The rating is equalized with that on The Netherlands, reflecting our opinion that there is an almost certain likelihood that WfZ would receive timely and sufficient extraordinary support from the Dutch government.
- The stable outlook reflects that on The Netherlands.

## Rating Action

On July 15, 2016, S&P Global Ratings affirmed its 'AAA' long-term issuer credit-rating on Dutch health care guarantee fund Waarborgfonds voor de Zorgsector (WfZ). The outlook remains stable.

## Rationale

The long-term rating on Dutch guarantee fund WfZ is equalized with that on The Netherlands, reflecting our view of an almost certain likelihood that the government would provide timely and sufficient extraordinary support to WfZ in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our view of an almost certain likelihood of extraordinary government support is based on our assessment of WfZ's:

- Critical public policy role in enabling the provision of accessible and affordable health care, through providing guarantees on loans to health care providers. WfZ is an independent, not-for-profit guarantee fund, whose main and key purpose is to safeguard the funding of the Dutch health care sector. Its primary method of achieving this is by selectively guaranteeing loans made to participating health care providers, which helps them access more affordable finance, especially in a context of growing pressure on Dutch health care providers' financials. In addition, WfZ also seeks to promote good financial management among its participants. WfZ also administers a legacy portfolio of loan guarantees that were previously issued by the government.
- Integral link with the Dutch government. We view WfZ as having a special public status, given the government's ultimate responsibility for ensuring WfZ can meet its obligations. The government created WfZ, provided its initial capital, and is ultimately liable for all WfZ's financial obligations. Although WfZ has a degree of operational autonomy, the government has effectively determined WfZ's broad purpose and overall strategy. While we believe a default of WfZ would probably not impair market access for the Dutch government itself, it could have damage reputation and market access for other similar entities such as Waarborgfonds

Sociale Woningbouw (AAA/Stable).

The rating also reflects WfZ's prudent risk management. WfZ applies strict eligibility criteria for its guarantees, based on its credit analysis of the participating health care providers and their business plans. In addition, it maintains strict credit surveillance on its participants and holds discussions directly with senior management. WfZ also maintains conservative criteria for its investments, with 'AAA' rated ones accounting for 59% of the total portfolio as of financial year-end 2015, while adhering to the strict policy of no exposure to equity markets.

WfZ returned to positive territory, posting an overall surplus of €10.6 million (186% of revenues) in the financial year ending in 2015, following previous deficits of €4.4 million (75.9% of revenues) in 2014 and €15.6 million (over 260% of revenues) in 2013, driven by the tax liability settlement with Dutch authorities and first ever call on guaranteed debt related to a default in the public health care sector, respectively. We believe that WfZ will continue to post surpluses in the next few years, despite expected additional costs of €2 million-€3 million per year in light of the guarantee call received in 2013 and corporate tax payment.

The health care sector is under pressure stemming from reduced grants from the central government and we expect the trend of a reduction in investments by hospitals, and therefore the need for guarantees, to continue. WfZ is adjusting to these developments by strengthening review checks on participating providers and through the recent increase in fees from 0.1% to 0.25%, starting from December 2015 onward, which will have a positive impact on the financial performance. We expect an average surplus of about €8 million (130% of revenues) over the next three years (2016-2018), provided that no guarantees are called.

If health care providers become unable to service their debts, and creditors call on the WfZ guarantees, then WfZ has some capacity to meet these demands from its cash and investments. If WfZ's reserves fall below 0.25% of guaranteed debt then, under the terms of the guarantees it provides, all the participating health care providers are obliged to provide WfZ with interest-free loans of up to 3% of their guaranteed debt.

If, despite this, WfZ's reserves still fall to less than 0.25% of guaranteed debt, then The Netherlands has an obligation to provide unlimited interest-free loans to increase reserves up to the 0.25% level. According to the terms of the documents, the government is obliged to do this by the 15th day of the second month after the 0.25% level is breached. In practice, however, based on our discussions with government and our analysis above, we consider it almost certain that the government would be willing to act as quickly as necessary to avoid WfZ defaulting on its obligations.

## **Liquidity**

In addition to this access to extraordinary support, we consider that WfZ has a very positive internal liquidity position. At year-end 2015, it held cash and investments

of about €282 million, representing about 26% of total guaranteed debt service over the next 12 months. WfZ has a history of generating positive cash flows, and we generally expect this to continue. Another positive liquidity feature is the regular redemption profile of its investments.

## Outlook

The stable outlook reflects that on The Netherlands. We expect The Netherlands's economy to continue to grow, while maintaining a strong external position and improving budgetary metrics. We expect The Netherlands to withstand potential financial and economic shocks, for example, stemming from the slowdown in world economic growth, while maintaining its current policy trajectory and prudence.

We would lower the rating on WfZ if we were to downgrade The Netherlands. Alternatively, we could also lower the rating if we were to change our assessment of the likelihood of timely and sufficient extraordinary support from the government. We consider such a scenario unlikely at this stage.

## Related Criteria And Research

### Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

### Related Research

- Research Update: State of The Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, May 20, 2016
- Research Update: Dutch Guarantee Fund WFZ Upgraded To 'AAA' After Similar Action On The Netherlands; Outlook Stable, Dec. 3, 2015
- Research Update: Long-Term Ratings On The Netherlands Raised To 'AAA' On Stronger-Than-Expected Economic Growth Prospects; Outlook Stable, Nov. 20, 2015

## Ratings List

	Rating	
	To	From
Waarborgfonds voor de Zorgsector		
Issuer Credit Rating		
Foreign and Local Currency	AAA/Stable/--	AAA/Stable/--

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