

FITCH AFFIRMS BANK NEDERLANDSE GEMEENTEN AT 'AA+'; OUTLOOK STABLE

Fitch Ratings-London-05 April 2018: Fitch Ratings has affirmed Bank Nederlandse Gemeenten's (BNG Bank's) Long-Term Issuer Default Rating (IDR) and senior debt ratings at 'AA+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

IDRs, SENIOR DEBT, DERIVATIVE COUNTERPARTY RATING (DCR), SUPPORT RATING AND SUPPORT RATING FLOOR

BNG Bank's 'AA+' Long-Term IDR is at the bank's Support Rating Floor (SRF) and reflects Fitch's belief that there is an extremely high probability that the Netherlands (AAA/Stable) will support the bank in case of need. Fitch will continue to factor in state support for BNG Bank despite the implementation of the Bank Recovery and Resolution Directive (BRRD). Fitch's expectation is based on BNG Bank's state ownership, and its important and long-lasting policy role in financing the Dutch public sector.

The BRRD, which was implemented formally into Dutch law in November 2015, represents a small incremental risk to state support being made available to BNG Bank's senior unsecured creditors in a timely manner, as well as dilution of national discretion over resolution decisions. This is reflected in the one-notch differential between the Netherlands' Long-Term IDR and BNG Bank's SRF and hence Long-Term IDR.

Fitch believes that the state would act pre-emptively to replenish BNG Bank's capital levels, in case of need, due to the dependence of the bank's business model on wholesale funding. We also see a very low likelihood that the bank will face a sudden need for capital support, given its mainly domestic public sector assets. Should the need for support arise, Fitch considers it highly likely that support from BNG Bank's public owners would be arranged in accordance with the private investor test as part of state aid considerations and also required under BRRD to avoid necessary bail-in of senior creditors. However, the remote risk that this may not be achieved drives the one notch-differential between the bank's and the state's Long-Term IDRs.

BNG Bank's full public ownership is long-term and strategic. Half of its capital has been held by the Dutch state since 1921 with the other half controlled by Dutch provinces and local authorities. The bank's articles of association prevent private ownership.

BNG Bank is one of the Dutch policy banks whose clear, strategic and long-established roles have been to provide banking services to the public authorities. This is defined in BNG Bank's articles of association. Fitch believes it would be difficult to transfer this role to commercial banks given the low yield and long maturity of the assets generated by the bank's business model.

We believe that the absence of an explicit funding guarantee from the Netherlands to BNG Bank and of a special legal status, which would legally bind the state to support the bank, is largely offset by the greater influence on the ratings of BNG Bank's policy role and public ownership.

BNG Bank's operations are entirely determined by its policy role, its strategy is framed by the bank's articles of association and its franchise largely dependent on its public ownership. The extremely low-risk nature of BNG Bank's assets, its solid risk-weighted capital ratios and prudent liquidity management make it highly unlikely that it will ever require extraordinary support.

The Derivative Counterparty Rating is at the same level as the Long-Term IDR because under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution scenario.

RATING SENSITIVITIES

IDRS, SENIOR DEBT, DCR, SUPPORT RATING AND SUPPORT RATING FLOOR

BNG Bank's ratings are sensitive to changes in the Netherlands' ability to provide support as reflected in the sovereign ratings. A weakening of BNG Bank's strategic importance to the Dutch state or ownership, which we view as highly unlikely, could also cause a widening of the notching between the Netherlands' and BNG Bank's ratings. A deviation from its narrowly defined domestic policy role could also be rating negative.

The rating actions are as follows:

Long-Term IDR: affirmed at 'AA+'; Outlook Stable

Short-Term IDR: affirmed at 'F1+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'AA+'

Derivative Counterparty Rating: affirmed at 'AA+(dcr)'

Long-term senior unsecured debt: affirmed at 'AA+'

European commercial paper: affirmed at 'F1+'

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023430>

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