FitchRatings

BNG Bank N.V.

Banks
Development Banks
Netherlands

Key Rating Drivers

Ratings Equalised with Sovereign: BNG Bank N.V.'s Government Support Rating (GSR) of 'aaa', and its Issuer Default Ratings (IDRs) are driven by sovereign support from the Netherlands. The Long-Term IDR is equalised with that of the Netherlands (AAA/Stable). This reflects Fitch Ratings' view of an extremely high probability of support from the Dutch state in the event of stress. The Dutch state's strong propensity to support the bank is mainly underpinned by its policy role and 50% state ownership.

Low Resolution Risk: BNG Bank is within the scope of the Bank Resolution and Recovery Directive (BRRD) and subject to simplified resolution planning obligations. The preferred approach, should BNG Bank fail, is liquidation under national insolvency proceedings, which substantially reduces the risk of a resolution being triggered.

Fitch believes that the Single Resolution Board (SRB) would not be incentivised to take resolution action if it is clear that the Dutch state, BNG Bank's main shareholder, is willing to pre-emptively inject capital into the bank. Clarity over the preferred course of action in the unlikely event BNG Bank fails or is likely to fail, and the absence of a requirement to issue and maintain bail-in-able debt buffers, further support our assessment.

Pre-Emptive Support Highly Likely: Fitch believes that the state would act pre-emptively to replenish BNG Bank's capital levels, if needed, due to the dependence of the bank's business model on access to wholesale funding and investor confidence. We believe it is highly likely that support from the sovereign would be provided in accordance with the private investor test as part of state aid considerations.

Clear Policy Role: BNG Bank is the larger of the two Dutch policy banks. It has a clear, strategic and long-established role as a provider of banking services and financing to public authorities. Fitch believes that BNG Bank will continue to have a significant role in supporting state policy objectives, and that it would be difficult to transfer this role to commercial banks, given the low yield and long maturity of the assets originated by the bank.

No Viability Rating Assigned: Fitch does not assign a Viability Rating to BNG Bank as its policy role determines most of its operations, the bank's articles of association frame its strategy, and its franchise primarily relies on the public-sector ownership.

Social Aspects Relevant to the Rating: The bank fulfils a critical role in financing housing associations at low cost and thus contributes to the implementation of the state's social policy to improve housing affordability for underserved communities in the Netherlands. This factor has a moderate positive influence on Fitch's assessment of a high likelihood of support from the Dutch state if needed, and is relevant to BNG Bank's ratings in conjunction with other factors.

Low-Risk Operations: The low-risk nature of BNG Bank's assets, its solid risk-weighted capital ratios, the accommodative Dutch regulatory policy towards policy banks and prudent liquidity management make it highly unlikely that it will ever require extraordinary support.

Ratings

Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+
Derivative Counterparty Rating	AAA(dcr)
Government Support Rating	aaa

Sovereign Risk (Netherlands)

Long-Term Foreign- and Local-Currency IDRs	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms BNG Bank at 'AAA'; Outlook Stable (January 2023)

Global Economic Outlook (December 2022)

Fitch Affirms Netherlands at 'AAA'; Outlook Stable (September 2022)

Analysts

Andreea Playoust
+33 1 44 29 91 71
andreea.playoust@fitchratings.com

Oceane Lefebvre
+33 1 44 29 91 49
oceane.lefebvre@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the Dutch sovereign rating would lead to a similar action on BNG Bank's ratings. Ratings are also sensitive to changes in Fitch's assumptions about the Netherlands' propensity to support the bank. A weakening of BNG Bank's policy role or a reduction of the state's ownership, which we view as highly unlikely, would result in a downgrade of BNG Bank's ratings. A deviation from its narrowly defined domestic policy role would also be rating negative.

Fitch could notch BNG Bank's ratings down from the sovereign rating if there was an increased likelihood that senior creditors would suffer losses under state-aid rules. Fitch could also take negative rating action if there were any changes to the resolution approach, particularly if they imply that BNG Bank could be resolved with the use of the bail-in tool.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

BNG Bank's ratings and GSR are at the highest possible level on Fitch's scale and cannot be upgraded.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior unsecured	AAA/F1+

Source: Fitch Ratings

BNG Bank's short- and long-term senior unsecured debt is rated in line with its IDRs. This reflects Fitch's view that default risk on senior unsecured debt equates to the default risk of the bank, as captured in its IDR, and the expectation of average expected recoveries upon default. BNG Bank's DCR is aligned with the bank's Long-Term IDR, which is at the highest possible level. Under Dutch legislation, derivative counterparties have no preferential status over other senior obligations in a resolution.

BNG Bank's senior unsecured debt ratings and DCR are sensitive to a change in its Long-Term IDR.

Company Summary and Key Qualitative Factors

Business Profile

Largest Policy Bank in the Netherlands

BNG Bank has a mandate to provide funding at the lowest possible cost to the Dutch local and regional public authorities, and public-sector-related entities. It is dominant in public-sector financing in the Netherlands, with around a 60% share in lending to the public sector, around 50% in social housing and 40% in healthcare financing. The bank's customer base consists predominantly of Dutch local authorities, public-sector utilities and entities involved in social housing, healthcare and education. BNG Bank also provides refinancing to banks under the Dutch export credit guarantee scheme.

BNG Bank is owned by the Dutch state (50%) and by public-sector-related entities (50% by a combination of Dutch provinces and municipalities and a public water utility body). The bank's articles of association forbid non-public, commercial ownership and we expect the Dutch government and public entities to maintain their shareholding. Although no explicit guarantee from the Dutch state is in place, the government has a substantial indirect involvement in the bank and provides a backstop guarantee to a high proportion of the bank's loans.

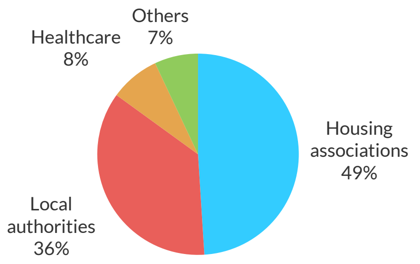
Clear Policy Role

BNG Bank's primary objective is derived from its public mission and consists of providing financing to the public sector while keeping prices and interest rates to a low level. The bank also aims at improving its social impact and has defined five sustainable development goals in its strategic plan, which we believe are closely aligned to government's social objectives.

BNG Bank seeks to maintain a substantial market share in the Dutch public- and semi-public-sector's long-term zero-risk-weighted financing, and at least 90% of its loans need to qualify as 'promotional'. A promotional loan is granted to sponsor the public policy objectives of central or regional governments in an EU member state.

Long-Term Lending by Sector

EUR87bn at end-2021



Source: Fitch Ratings, BNG Bank

Risk Profile

Inherently Low Credit Risk

BNG Bank's very low appetite for credit risk is the result of its policy role. The low-risk nature of BNG Bank's operations typically results into limited credit losses. More than 90% of the loans originated in 2021 and 1H22 were zero-risk-weighted (solvency-free), having been extended either to Dutch public-sector bodies or guaranteed by the Dutch housing guarantee fund Waarborgfonds Sociale Woningbouw, or the Dutch healthcare guarantee fund Waarborgfonds voor de Zorgsector, and, ultimately, the Dutch state.

Non-guaranteed exposures are permitted if they have a social impact and if borrowers are at least 50% publicly owned, and include project financing in the areas of property energy transition and renewable energy.

The bank does not have a trading book and has a low exposure to market risk, which is mostly in the form of interest rate and foreign exchange risk. Foreign-currency risk arises from substantial funding in foreign currency (around 28% of total funding in 2021), while lending is exclusively in euros. The risk is fully hedged through swaps.

Financial Profile

Asset Quality

BNG Bank's asset quality is strong due to its inherently low-risk exposures. Impaired loans modestly increased to a still-healthy level of about 0.7% of gross loans at end-June 2022, from about 0.6% at end-2021. We expect asset quality metrics to be resilient in the next 12 to 24 months, supported by the bank's high-quality borrower base and moderate volume growth.

Loan impairment charges (LICs) are generally small and infrequent as the vast majority of loans are extended either to government bodies or to housing associations under the Dutch social housing fund guarantee and ultimately backed by the central government. In 1H22, BNG Bank released EUR14 million loan loss allowances – mainly reflecting redemptions, compared to EUR20 million of LICs in 2021.

The securities portfolio is low risk and almost exclusively investment-grade. It is mainly invested in highly-rated sovereign bonds, residential mortgage-backed securities and covered bonds.

Earnings and Profitability

BNG Bank's profitability is more modest than that of larger Dutch commercial banks due to its policy role. Profit maximisation is not a key strategic objective for the bank as shareholders require a modest return on equity. Net interest income (NII) is the main driver of BNG Bank's revenue. The bank's net interest margin has been quite narrow at 30bp–40bp over the past five years, and we expect an increase due to higher interest rates. BNG Bank has an exceptionally low cost of funding due to its robust rating and investors' trust in the bank's strong relationship and association with the Dutch state. Fitch believes the bank's business model would be barely viable otherwise.

Despite a material increase in operating expenses, BNG Bank's 1H22 net income of EUR206 million was about 10% higher year-over-year. In 1H22, the bank benefitted from EUR92 million in positive revaluations of its fair-value assets and the sale of securities as part of the management of its liquidity portfolio. It is unlikely that these gains will have been repeated in 2H22 and we expect the bank's net income/average total equity for the full year (1H22: 9.7%) to have been closer to the 2008–2021 average of around 6%.

Capital and Leverage

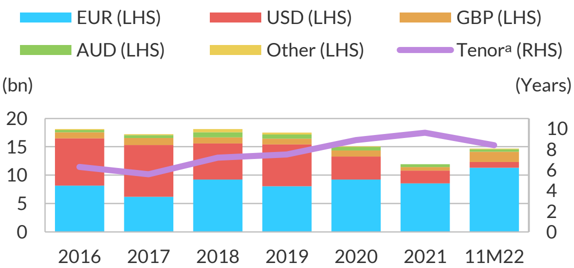
BNG Bank's end-June 2022 common equity Tier 1 ratio (37%) was well above the internal 22% target. Fitch expects a limited effect from Basel III end-game rules on BNG Bank's capital ratios because the bank uses the standardised approach. BNG Bank's reported leverage ratio was sound at 8.2% at end-June 2022, and 220bp lower than at end-2021 following the removal of the temporary exemption of central bank reserves from the total leverage exposure.

Funding and Liquidity

Despite its high reliance on wholesale funding, BNG Bank has maintained a strong access to the debt capital markets through various credit cycles, most likely due to its links to the state and consequently high ratings. The bank has a diverse investor base and actively issues internationally in various currencies (more than 70% of the long-term debt issuance in 2021–2022 was denominated in euros). BNG Bank does not gather retail deposits or issue secured debt.

At end-June 2022, liquid securities (rated 'AAA' or 'AA') totalled EUR15.3 billion (about 11% of total assets) and the bank's sound cash position and prudent liquidity management mitigates its annual refinancing needs of EUR14 billion–EUR15 billion. BNG Bank's liquidity is also sensitive to market movements as it may be required to post additional cash collateral on derivatives used to hedge market risk. The bank could use its entire solvency-free loan portfolio as collateral to obtain funding from the ECB, if needed.

Funding Raised, by Currency



[a] Weighted average
Source: Fitch Ratings, BNG Bank

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	229	220	407	477	435
Net fees and commissions	9	9	17	25	30
Other operating income	106	102	105	-13	41
Total operating income	344	331	529	489	506
Operating costs	77	74	161	140	119
Pre-impairment operating profit	267	257	368	349	387
Loan and other impairment charges	-15	-14	20	16	153
Operating profit	281	271	348	333	234
Other non-operating items (net)	1	1	2	-1	-7
Tax	69	66	114	111	64
Net income	214	206	236	221	163
Other comprehensive income	-160	-154	-74	7	-87
Fitch comprehensive income	54	52	162	228	76
Summary balance sheet					
Assets					
Gross loans	94,175	90,666	89,975	89,152	88,472
- Of which impaired	617	594	549	396	290
Loan loss allowances	235	226	237	210	193
Net loans	93,940	90,440	89,738	88,942	88,279
Interbank	161	155	163	120	66
Derivatives	1,356	1,305	19,240	29,356	26,466
Other securities and earning assets	16,379	15,769	17,615	19,101	18,785
Total earning assets	111,836	107,669	126,756	137,519	133,596
Cash and due from banks	26,331	25,350	9,264	2,312	1,272
Other assets	5,373	5,173	13,037	20,528	14,821
Total assets	143,540	138,192	149,057	160,359	149,689
Liabilities					
Customer deposits	6,852	6,597	4,525	5,599	5,575
Interbank and other short-term funding	23,286	22,418	23,984	19,832	12,403
Other long-term funding	98,394	94,728	97,916	101,039	103,361
Trading liabilities and derivatives	8,672	8,349	17,245	27,621	23,325
Total funding and derivatives	137,204	132,092	143,670	154,091	144,664
Other liabilities	1,615	1,555	325	1,171	138
Preference shares and hybrid capital	321	309	733	733	733
Total equity	4,400	4,236	4,329	4,364	4,154
Total liabilities and equity	143,540	138,192	149,057	160,359	149,689
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, BNG Bank N.V.

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	2.7	2.8	1.9
Net interest income/average earning assets	0.4	0.3	0.3	0.3
Non-interest expense/gross revenue	23.1	30.7	28.8	23.7
Net income/average equity	9.7	5.4	5.2	3.9
Asset quality				
Impaired loans ratio	0.7	0.6	0.4	0.3
Growth in gross loans	0.8	0.9	0.8	3.8
Loan loss allowances/impaired loans	38.1	43.2	53.0	66.6
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.2
Capitalisation				
Common equity Tier 1 ratio	37.0	32.0	33.0	32.3
Tangible common equity/tangible assets	3.1	2.9	2.7	2.8
Basel leverage ratio	8.2	10.6	3.5	3.6
Net impaired loans/common equity Tier 1	n.a.	7.7	4.6	2.5
Funding and liquidity				
Gross loans/customer deposits	1,374.4	1,988.4	1,592.3	1,586.9
Liquidity coverage ratio	n.a.	173.6	133.0	158.0
Customer deposits/total non-equity funding	5.3	3.6	4.4	4.5
Net stable funding ratio	n.a.	126.0	122.0	126.0

Source: Fitch Ratings, Fitch Solutions, BNG Bank N.V.

Support Assessment

Policy Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	AAA
Government Support Rating	AAA
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	
Liability structure	
Ownership	
Policy role and status	
Ownership	Equalised
Policy role	Equalised
Guarantees and legal status	No Impact

The colours indicate the weighting of each KRD in the assessment.
Higher influence   Moderate influence   Lower influence

Extremely High Probability of Support From the Dutch State

In Fitch's view, legislative, regulatory and policy initiatives, including the implementation of the BRRD, have substantially reduced the likelihood of sovereign support for EU commercial banks in general. However, Fitch continues to factor Dutch state support into BNG Bank's ratings given the nature of BNG Bank's business, status and public ownership. Fitch believes the Dutch state will act pre-emptively to maintain the bank's viability, subject to any recapitalisation following EU state-aid rules.

Under the EU state-aid rules, public support does not qualify as state aid if the investments by the state in a company do not confer an advantage to the company. This would be the case when the state acts in the same way as a private investor. This principle is commonly referred to as the "market economy operator test".

The BRRD and the SRB do not restrict shareholders' ability to carry out a capital injection under market conditions to protect their investments in a strategic, long-term and viable institution. The implementation of the BRRD into Dutch law does not include any specific provisions on the treatment of public banks. This could suggest that the Dutch authorities are confident that the BRRD provides sufficient flexibility for public shareholders to inject funds into public banks to address any capital shortfalls.

Simplified Resolution Planning Obligations

As per the SRB decision, simplified resolution planning obligations apply in the case of BNG Bank. Under these simplified obligations, the preferred course of action for BNG Bank in the event that it is failing or likely to fail, and if failure cannot be avoided by a private solution, is insolvency under national law.

We believe that the adoption of a formal plan that does not involve the use of a bail-in tool reduces the likelihood that BNG Bank's senior unsecured creditors will suffer losses. This is because it reduces the risk the state will be prevented from providing support to the bank in a timely manner.

Under the Single Resolution Mechanism Regulation, when considering whether resolution is necessary in the public interest to prevent insolvency, the resolution authorities need to consider whether or not liquidation would present a threat to financial stability, among other factors. The adoption of a simplified obligations plan for BNG Bank, in our view, means that the resolution authorities do not consider the liquidation of BNG Bank to be a threat to financial stability, for example due to its specific business model and Dutch public-sector focus.

As a result, we believe the resolution authorities may not be incentivised to intervene and take resolution action if it is clear that the Dutch state, in its capacity as BNG Bank's shareholder, is willing to inject capital even if this may operationally take time. Capital injection may take longer, for example, because it would need to go through a political approval process in the Netherlands or be approved for compliance with EU state-aid rules.

Environmental, Social and Governance Considerations

Overall ESG

5
4
3
2
1

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale

5
4
3
2
1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	4	+	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

S Scale

5
4
3
2
1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale

5
4
3
2
1

BNG Bank N.V. has an ESG Relevance Score of '4[+]' for Human Rights, Community Relations, Access & Affordability due to its policy role, which through the financing of housing associations provides accessibility and affordability to the Dutch housing market. This has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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