

28 Mar 2019 | Upgrade

Fitch Upgrades BNG Bank to 'AAA'; Outlook Stable

Fitch Ratings-Paris-28 March 2019: Fitch Ratings has upgraded BNG Bank N.V.'s Long-Term Issuer Default Rating (IDR) and senior debt ratings to 'AAA' from 'AA+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is at the end of this commentary.

The upward revision of BNG Bank's Support Rating Floor (SRF) and the upgrade of the Long-Term IDR to 'AAA' reflect the finalisation of the bank's resolution strategy and the approval by the Single Resolution Board (SRB) of a simplified obligations plan for BNG Bank. Under simplified obligations the course of action for BNG Bank, should it ever fail, would be liquidation under national insolvency proceedings. Fitch believes that the adoption of the simplified obligations plan for BNG Bank reduces the risk of losses for senior creditors in a resolution because in our view it substantially decreases the likelihood of a resolution being triggered.

Previously, Fitch had viewed the implementation of the Bank Recovery and Resolution Directive (BRRD) to represent a small incremental risk to state support being made available to BNG Bank's senior unsecured creditors in a timely manner.

KEY RATING DRIVERS

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

The SRF and the Long-Term IDR reflects Fitch's belief of an extremely high probability that the Netherlands (AAA/Stable) will support the bank in case of need, despite the implementation of BRRD. Fitch's expectation is based on BNG Bank's state ownership and important and long-lasting policy role in financing the Dutch public sector.

We believe that in case of financial distress, the SRB would not be incentivised to take action if it is clear that the Dutch state, in its capacity as shareholder, is willing to inject capital into the bank. Should the need for support arise, Fitch believes it is 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.

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 and hence investor confidence. 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.

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 high influence on the ratings of BNG Bank's policy role and public ownership.

The operations of BNG Bank are solely 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, the bank's solid risk-weighted capital ratios and prudent liquidity management make it highly unlikely that extraordinary support will ever be required.

The Derivative Counterparty Rating has been upgraded in line with the Long-Term IDR.

RATING SENSITIVITIES

IDRS, SENIOR DEBT, DCR, SUPPORT RATING AND SRF

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, would result in a downgrade of BNG Bank's ratings. A deviation from its narrowly defined domestic policy role would also be rating-negative. Changes to the resolution approach are a key rating sensitivity, in particular should they imply that BNG Bank will be resolved with the use of the bail-in tool.

The rating actions are as follows:

Long-Term IDR: upgraded to 'AAA' from 'AA+'; Outlook Stable

Short-Term IDR: affirmed at 'F1+'

Support Rating: affirmed at '1'

Support Rating Floor: revised to 'AAA' from 'AA+'

Derivative Counterparty Rating: upgraded to 'AAA(dcr)' from 'AA+(dcr)'

Long-term senior unsecured debt: upgraded to 'AAA' from 'AA+'
European commercial paper: affirmed at 'F1+'

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Applicable Criteria

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

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