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Ratings

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BNG Bank N.V.

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BNG Bank N.V.

SACP	a+	+	Support	+4	+	Additional Factors	0

Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Very Strong	+2
Risk Position	Strong	+1
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	+4
Group Support	0
Sovereign Support	0

Issuer Credit Rating
AAA/Stable/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Almost certain likelihood of extraordinary support from the Dutch Ministry of Finance • Very strong capitalization • Leading lender to Dutch public authorities, supporting better asset quality than that of traditional commercial banks	• Limited revenue diversification, with business prospects linked to the Dutch public sector funding needs • Moderate capital generation due to low lending margins and exposure to capital markets volatility

Outlook: Stable

S&P Global Ratings' stable outlook on BNG Bank N.V. reflects that on The Netherlands (AAA/Stable/A-1+). As long as we consider support from the Dutch government almost certain, and provided the bank maintains an adequate financial standing, the long-term issuer credit rating on BNG is unlikely to diverge from that on the sovereign. As a result, any rating action on The Netherlands would likely result in a similar rating action on the bank. Nevertheless, we expect BNG's financial risk profile to remain resilient over the next two years, even during the macroeconomic downturn resulting from the coronavirus pandemic.

We could therefore downgrade the bank by one notch if we were to take a similar action on The Netherlands. We could also lower the ratings over the next two years if we saw a reduced likelihood of support from the Dutch government toward other majority-owned sectors. This could happen if BNG's role for the Dutch government diminished following, for example, a sharp increase in competition; or if we believe that the bank's link with the government had weakened.

Rationale

BNG is the leading local government funding bank in The Netherlands. It is a publicly owned bank, is fully regulated, and provides credit (among other) services, to local and regional governments, housing associations, and the health care sector. This public mandate, as well as the public ownership, underpin our view that the bank is a government-related entity (GRE) and the Dutch government will continue to provide BNG with ongoing and extraordinary support, if needed. Therefore, we equalize the long-term issuer credit rating on the bank with the sovereign credit rating on The Netherlands.

Our 'a+' stand-alone credit profile (SACP) on BNG captures our view of the bank's creditworthiness excluding extraordinary government support. It is one of the strongest rated banks in The Netherlands, driven by its long-standing stable franchise in a niche market, very high capital base and low credit risk profile. Government ownership also allows the bank to benefit from very low funding costs, whose persistence is an essential part of the business model due to the low asset yields.

Anchor:'bbb+' for a bank operating only in The Netherlands

We use our Banking Industry Country Risk Assessment economic and industry risk scores to determine a bank's anchor--the starting point in assigning an issuer credit rating. The anchor for a bank operating only in The Netherlands is 'bbb+'.

BNG is not a commercial bank, like the ones that dominate the domestic market like ING, ABN AMRO, or Rabobank. Its business focus and clientele differ from the ones of the average Dutch banking sector and, therefore, the risks that it faces (no real estate risk, credit bubble or other type of imbalances). Still, the strong public finances as well as the wealthy, diversified, and open nature of the Dutch economy are features that reinforce the sovereign's creditworthiness. Ultimately, the credit quality of most of BNG's public-sector borrowers depends on the strength of the sovereign and the economy as a whole.

Our assessment of industry risks for BNG essentially incorporates the depth of the domestic capital market and the Dutch authorities' good track record in providing liquidity support. It also captures the benefits of being a regulated entity, supervised like any other domestic bank by the relevant banking authorities and therefore being subject to deep control of credit, market and operational risks.

Table 1

BNG Bank N.V. Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	149,689	137,509	140,025	154,000	149,511
Customer loans (gross)	88,472	85,081	85,380	87,346	88,605
Adjusted common equity	3,875	3,733	3,618	3,384	3,111
Operating revenues	506	580	643	554	499
Noninterest expenses	126	119	117	117	113
Core earnings	163	337	391	349	232

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Business position: A stable public sector financing franchise offset by business and geographic concentration

BNG's business position reflects the bank's sound market position and its stable activities. BNG provides about 60% of the Dutch public sector's financing needs. While the bank's low-risk customer base and niche market positioning should support BNG's earning capacity through the credit cycle, the business and geographical concentration inherent in its business model poses some risks as well, in our view.

BNG's strategy still centers on its exclusive Dutch public financing mandate. Specifically, the bank aims to minimize the cost of financing to the public sector, while complying with regulatory requirements and achieving a reasonable return for the shareholders. As a promotional bank, profit maximization isn't a goal per se. Nevertheless, we understand management intends to pursue a return-on-equity target of minimum 3.7%, as currently requested by the government.

BNG's business model prevents excessive risk taking by maintaining a clear mandate in areas of low-risk and long-standing expertise. This favors revenue predictability, in our view. Furthermore, as long as the bank's creditworthiness is perceived as in line to that of the Dutch sovereign--with a positive impact on BNG's cost-of-funding--the bank's business model is likely to remain largely shielded from competition, at least for the foreseeable future. This is mainly because competition from commercial banks in these segments will remain modest due to the low asset margins and because most of the bank's clients have limited or no direct access to capital markets.

As of year-end 2019, BNG's customer loan portfolio stood at €88.5 billion, about 4.0% higher year-on-year. The rise in lending activity mainly follows the increased financing needs of the bank's customer base. For example, we understand that housing associations have increased their investments, to make their housing stock more sustainable and address the shortage of supply on the Dutch housing market.

Social housing entities dominate BNG Bank's loan portfolio and represent 48% of the bank's total loans. Municipalities and healthcare sector follow, accounting for 36% and 8%, respectively, of BNG's loan book. We do not expect this portfolio composition to change substantially in the next two years, supporting the bank's superior asset quality.

Over the past few years, BNG started to invest in different asset classes, such as the energy and infrastructure sector, where the bank undertakes project financing in the area of property energy transition and renewable energy. However, we expect this type of investment to constitute up to 10% of the portfolio.

After years of no or low growth, we expect BNG's business prospects to remain dynamic over 2020-2022. Specifically, we estimate that the bank's customer loan portfolio will grow a further 7%, with most of that in 2020. This reflects our view of potential further increase in the Dutch public sector funding needs this year, on the back of public measures to support the Dutch private sector's creditworthiness amid the COVID-19 shock.

Concentration risks offset BNG's focus on low-risk loans, because the bank invests its entire loan portfolio in The Netherlands on a nearly one-sided government-risk asset class.

Table 2

BNG Bank N.V. Business Position

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Return on average common equity	3.9	7.9	9.9	9.9	6.2

Capital and earnings: Very strong capitalization

We expect the bank to continue to exhibit very high capital ratios. At end-2019, our risk-adjusted capital (RAC) ratio stood at 28.3%, well above the level typically exhibited by commercial banks, on the back of BNG's low-risk exposures--inherent in its mandate and business model--and prudent capital management. We don't expect this to change, so we anticipate that the bank's RAC ratio will remain very comfortably above the 15% mark over the next two years. This is despite BNG's contained internal capital generation capacity.

We base our RAC ratio projections on expected average retained earnings of about €170 million-€200 million per year over the next two years, and on increasing risk-weighted assets (RWAs), reflecting the bank's further expansionary activity. In particular, we include in our forecasts for the next two years a loan book outstanding increasing approximately 7% in 2020-2022, net interest margin of 38-40 basis points (bps) through 2020-2022 according to our calculation (compared to 41 bps at end-2019), and a cost-to-income ratio averaging 24% in that time.

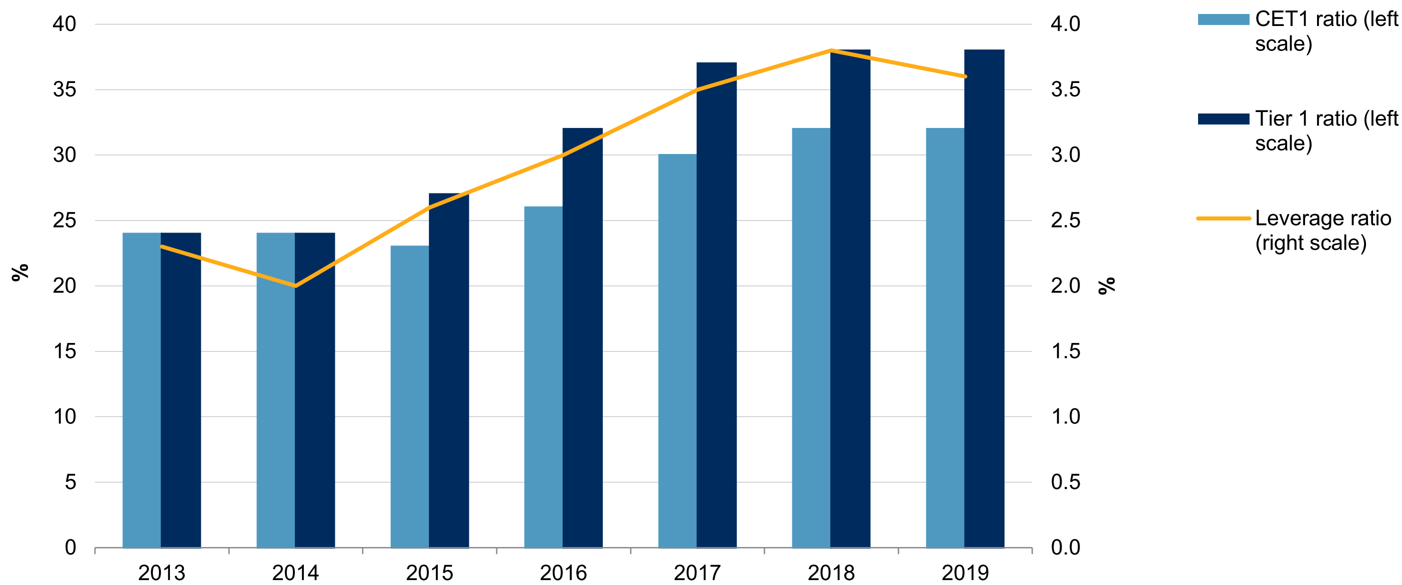
BNG hedges interest risk and foreign exchange risk through derivatives, and most of the counterparties are large financial institutions in Europe. Balance-sheet volatility--stemming from interest rate and foreign exchange fluctuations--directly affects our capital metric. However, this volatility will not lead the bank's capital ratio to drop below our 15% threshold.

Typical for banks with a large balance sheet comprising low-risk assets, meeting leverage ratios could be more of constraint for BNG than meeting capital ratios, which are based on RWAs. As of end-2019, BNG Bank registered a Basel III leverage ratio of 3.6%, which is low when compared to commercial banks but in line with regulatory requirement for commercial banks. Nevertheless, in 2019, European regulators agreed that a special definition of leverage ratio calculation applies to promotional banks, like BNG. Under the revised rules, the bank's leverage ratio will likely be largely above the minimum requirements.

Earnings remain undiversified but very predictable. Recurring interest income represents most of BNG's total operating revenue, although results on financial transactions from realized and unrealized market value add material volatility to the bottom line. However, relatively low noninterest expenses and reduced staff costs support the bank's cost efficiency, even when considering rising regulatory expenses. Net interest income stood at €435 million in 2019, and the bank booked €30 million of income from commissions and a €37 million gain on financial transactions on the same date.

Chart 1

Evolution Of BNG Bank's Capital And Leverage Ratios



CET--Common equity tier. *Data as of June 30. Source: S&P Global Ratings.

Table 3

BNG Bank N.V. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	38.0	38.0	37.0	32.7	28.0
S&P Global Ratings’ RAC ratio before diversification	N/A	N/A	26.6	24.7	N/A
S&P Global Ratings’ RAC ratio after diversification	N/A	N/A	21.5	19.7	N/A
Adjusted common equity/total adjusted capital	84.1	83.6	83.2	82.2	88.0
Net interest income/operating revenues	86.0	74.8	67.7	73.1	90.2
Fee income/operating revenues	5.9	4.8	3.6	4.3	5.6
Market-sensitive income/operating revenues	7.3	19.3	28.1	21.3	3.2
Noninterest expenses/operating revenues	24.9	20.5	18.2	21.1	22.6
Preprovision operating income/average assets	0.3	0.3	0.4	0.3	0.3
Core earnings/average managed assets	0.1	0.2	0.3	0.2	0.2

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

BNG Bank N.V.--Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	95,485,267	439,566	0.5	3,157,927	3.3
Of which regional governments and local authorities	38,838,456	64,272	0.2	1,425,203	3.7
Institutions and CCPs	7,119,063	617,608	8.7	1,375,924	19.3
Corporate	10,319,671	8,077,670	78.3	6,787,042	65.8
Retail	39,697	39,697	100.0	11,369	28.6
Of which mortgage	39,697	39,697	100.0	11,369	28.6
Securitization§	4,942,853	1,037,738	21.0	1,281,394	25.9
Other assets	196,534	31,085	15.8	221,101	112.5
Total credit risk	118,103,085	10,243,363	8.7	12,834,758	10.9
Credit valuation adjustment					
Total credit valuation adjustment	--	987,810.5	--	2,226,798.4	--
Market Risk					
Equity in the banking book	34,563	34,563	100.0	302,424	875.0
Trading book market risk	--	0	--	0	--
Total market risk	--	34,563	--	302,424	--
Operational risk					
Total operational risk	--	1,004,943	--	1,110,080	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	12,270,679	--	16,474,059	100.0
Total Diversification/ Concentration Adjustments	--	--	--	3,744,727	22.7
RWA after diversification	--	12,270,679	--	20,218,786	122.7
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		4,691,973	38.2	4,608,000	28.0
Capital ratio after adjustments		4,691,973	38.2	4,608,000	22.8

*Exposure at default. Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2019', S&P Global Ratings.

Risk position: The bank is likely to maintain its conservative risk profile

Our assessment of BNG Bank's strong risk position reflects our view of its continued focus on very low-risk lending issued to, or guaranteed by, public authorities. Government risk dominates the portfolio, comprising the following as of Dec. 31, 2019: 48% social housing, 38% public sector, 9% health care, and 5% other sectors (such as education, and energy and infrastructure). WSW and Waarborgfonds voor de Zorgsector (WfZ) guarantee long-term lending to social housing and health care institutions, respectively. De Nederlandsche Bank, the central bank, considers these exposures equivalent to risk arising from the Dutch state, resulting in a 0% risk weight. The bank's low-risk type of lending activity (constituting at least 90% of the bank's total lending exposures) supports its stronger-than-industry average asset quality, with a loss experience historically close to zero.

In 2019, BNG's cost-of-risk jumped to 17 bps, following the €153 million credit provisions mainly caused by a counterparty that provides services to municipalities in The Netherlands. This amount is very small compared with those booked by commercial banks, but is unusually high for BNG. This credit exposure is part of the nonguaranteed loan business, composing less than 10% of the total loan book. Although the COVID-19 shock might negatively affect some of the bank's relationships, especially in the nonguaranteed segment of its lending portfolio, we expect this type of event to remain extraordinary.

A large share of highly rated instruments temper credit risk in BNG's securities portfolio: The bank invested 74% of the portfolio in 'AAA' rated securities as of year-end 2019 (with 21% and 2% in 'AA' and 'A' rated securities). Inevitably, this creates concentration risk for the highest quality sovereigns. The bank does not undertake any trading activities, and the board approves a framework of limits, which controls interest rate risk. BNG's policy is to fully hedge the exposure from all foreign currency debt issuance.

The bank's business model depends on continued access to low-cost liabilities given the structurally low yields on most of its assets. This creates a structural sensitivity to any negative market sentiment, essentially regarding Dutch risk.

We see social and environmental factors as relevant to our analysis of BNG, especially if compared to commercial banks operating in the Dutch market. Our view stems from the bank's material involvement in financing the Dutch social housing sector, and helping Dutch municipalities promote sustainability-related projects. In particular, BNG remains the main financing partner of Dutch housing associations, with more than 50% market share. We believe that the bank's role as lender to these counterparties will become more and more publicly relevant, promoting housing affordability in a country characterised by increasing population and limited territory for new buildings.

Table 5

BNG Bank N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	4.0	(0.4)	(2.3)	(1.4)	(1.2)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	24.1	25.4	14.8
Total managed assets/adjusted common equity (x)	38.6	36.8	38.7	45.5	48.1
New loan loss provisions/average customer loans	0.2	0.0	(0.0)	(0.0)	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.3	0.1	0.0	0.1	0.1
Loan loss reserves/gross nonperforming assets	66.6	82.5	106.3	32.6	38.3

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity:Wholesale-funded with well-diversified sources

We view funding as average and liquidity as adequate, despite BNG's main funding and liquidity metrics being weaker than Dutch peers'. In particular, we view negatively the large share of short-term wholesale funding in the bank's funding base--which has decreased to slightly below 30% over the past four years--because this funding resource is more confidence-sensitive. However, we understand BNG mostly uses this funding to finance short-term loans to clients, cash collateral for hedging operations, cash holdings, and short-term, highly rated securities that act as a liquidity buffer. This recourse to short-term funding supports the low cost of liabilities, which is an absolute requirement for an efficient business model. We consider this acceptable for a government-owned bank because ownership should not change, and we think that there is a strong correlation between the bank's own risk and the sovereign's. We would view such a reliance on short-term wholesale funding more negatively for a private bank.

In line with public sector-focused peers, BNG is almost entirely wholesale funded because it does not take deposits, which deprives it of a stable funding source. The bank's stable funding ratio stood at 84.3% and its broad liquid assets to short-term wholesale funding was 0.51x at year-end 2019. These ratios are unlikely to change much in 2020. We do not incorporate any negative rating adjustments regarding BNG's funding profile and liquidity position because we also take into account many qualitative factors. The bank enjoys a large and diversified investor base, demonstrated by its currency funding mix (46% euro, 42% U.S. dollar, 6% Australian dollar, and 4% British pound sterling), its geographic funding mix (40% Europe not including the U.K., 30% Asia, 17% Americas, and 9% U.K.), and its investor type funding base (39% central banks, 28% banks, and 12% asset managers). BNG's liquidity position is also more resilient than our metrics show, thanks to its large investment portfolio comprising highly liquid securities. Lastly, in contrast with most banks we rate, the majority of BNG's loan book is solvency free and could be pledged as collateral at De Nederlandsche Bank in case of liquidity stress.

Table 6

BNG Bank N.V. Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Long-term funding ratio	74.6	76.4	72.5	70.0	68.1
Stable funding ratio	84.3	84.6	78.8	82.5	78.6
Short-term wholesale funding/funding base	24.4	22.6	27.0	28.4	31.0
Broad liquid assets/short-term wholesale funding (x)	0.5	0.6	0.5	0.6	0.5
Net broad liquid assets/short-term customer deposits	(474.6)	(344.1)	(785.9)	N.M.	N.M.
Short-term wholesale funding/total wholesale funding	24.3	22.5	26.8	28.2	30.8
Narrow liquid assets/3-month wholesale funding (x)	0.9	1.3	1.2	1.1	1.1

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Support: Almost certain likelihood of support from the Dutch government.

We equalize the long-term issuer credit rating on BNG with the sovereign credit rating on The Netherlands. This reflects the support that we understand the bank receives from the Dutch Ministry of Finance, due to its public sector mandate and combined ownership by the Dutch state (50%) and other Dutch public authorities (50%). For this reason, we view BNG as a GRE with an almost certain likelihood of extraordinary government support. In accordance with our GRE criteria, we base our rating approach on our view of the bank's:

- Critical role as one of two public sector banks with a public policy role. In our view, BNG plays a vital role in providing low-cost and stable, constant financing to the Dutch public sector. Private sector commercial banks are typically willing to finance only a small part of the public sector's financing needs and cannot compete with the low-cost financing that BNG Bank provides. In the absence of public sector banks, the government would likely have to finance the public sector directly. We think BNG's links with other entities, such as WSW and WfZ--both of which benefit from government guarantees--increase the government's incentive to provide extraordinary support; and
- Integral link with the government, because we consider the bank an extension of the government. BNG's articles of association limit its ownership and lending activities to the public sector, which supports our view of the link between the bank and the government. Although the government is not involved in the day-to-day running of BNG, it maintains close oversight over the bank's strategy and capital policy.

Nevertheless, we will monitor developments in the Dutch social housing sector in case the state does not provide additional support to other Dutch GREs, such as WSW, as promptly as we expect. Beyond WSW's role for or link with the central government, we think a lack of timely support to WSW could affect our assessment of the likelihood of government support toward other GREs, including BNG.

Our assessment also factors in the EU's Bank Recovery and Resolution Directive (BRRD). Our longstanding view is that the BRRD does not appear to prevent the Dutch government, in its capacity as existing shareholder of a bank, from granting support to Dutch-domiciled GREs in going-concern situations--even if the GREs are subject to BRRD.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Eurozone Economy: The Balancing Act To Recovery, June 25, 2020
- The Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, May 15, 2020
- Negative Rating Actions Taken On Multiple Benelux Banks On Deepening COVID-19 Downside Risks, April 23,

2020

- Dutch Bank BNG's Remediation Efforts Against One-Off Credit Loss Booked In 2019 Prove Successful, March 17, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 15, 2020)*

BNG Bank N.V.		
Issuer Credit Rating		AAA/Stable/A-1+
Commercial Paper		A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
24-Nov-2015	*Foreign Currency*	AAA/Stable/A-1+
27-May-2015		AA+/Positive/A-1+
02-Dec-2013		AA+/Stable/A-1+
24-Nov-2015	*Local Currency*	AAA/Stable/A-1+
27-May-2015		AA+/Positive/A-1+
02-Dec-2013		AA+/Stable/A-1+
Sovereign Rating		
Netherlands		AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.