BNG Bank N.V.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Derivative Counterparty Rating	AAA(dcr)
Support Rating	1
Support Rating Floor	AAA
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

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

Key Rating Drivers

State Support Drives Ratings: BNG Bank N.V.'s ratings reflect Fitch Ratings' view there is an extremely high probability that the Netherlands will support the bank if needed. This reflects BNG Bank's state ownership and long-lasting policy role in financing the Dutch public sector.

Low Resolution Risk: BNG Bank's IDRs are equalised with those of the Dutch sovereign despite the implementation of the EU's Bank Recovery and Resolution Directive (BRRD). The Single Resolution Board (SRB) approved a simplified obligations plan for BNG Bank as a resolution strategy which means that, should it ever fail, it would be liquidated under national insolvency proceedings. In our view, this substantially reduces the risk of resolution being triggered.

Fitch believes the SRB would not be incentivised to take resolution action if it is clear the Dutch state, BNG Bank's main shareholder, is willing to inject capital into the bank. We believe this is demonstrated by the clarity over the preferred course of action in the unlikely case that BNG Bank is failing or likely to fail, and the absence of a requirement to hold bail-in-able debt.

Pre-Emptive Support Highly Likely: Fitch believes 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 wholesale funding and therefore investor confidence. We believe it is highly likely that support from the sovereign would be arranged in accordance with the private investor test as part of state-aid considerations.

Full Public Ownership: 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 the Dutch provinces and local authorities. BNG Bank's articles of association prevent private ownership.

Clear Policy Role: BNG Bank is one of two Dutch policy banks whose clear, strategic and long-established roles have been to provide banking services to public authorities. 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. The absence of an explicit funding guarantee from the Netherlands, and of a special legal status legally binding the state to support the bank, is offset by Bank's policy role and public ownership.

Low-Risk Operations: 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 require extraordinary support.

Rating Sensitivities

Sovereign Support Assessment: The ratings are sensitive to changes in the Netherlands' ability to provide support as reflected in the sovereign ratings. A weakening in BNG Bank's strategic importance to the Dutch state, a reduction in the state's holding, or a deviation from its narrowly defined domestic policy role, would also be rating-negative.

Change in Resolution Approach: Changes to the resolution approach is a key rating sensitivity, in particular if they implied BNG Bank would be resolved with the use of the bail-in tool.

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms Netherlands at 'AAA'; Outlook Stable (October 2020)
Fitch Affirms BNG Bank at 'AAA'; Outlook Stable (March 2020)
Sovereign Data Comparator – (September 2020)

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Debt Rating Classes

Rating Level	Rating
Senior unsecured	AAA/F1+

Source: Fitch Ratings

BNG Bank's senior unsecured debt is rated in line with the Long-Term IDR. Fitch believes the default risk of the bank's senior unsecured debt is equivalent to the default risk related to the IDR. BNG Bank's Derivative Counterparty Rating (DCR) 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.

Significant Changes

Operating Environment under Pressure

Fitch revised the outlook on the Dutch operating environment for commercial banks to negative from stable in April 2020, reflecting our expectation of significant deterioration in Dutch banks' operating conditions since the coronavirus pandemic. GDP forecasts for the eurozone and the Netherlands have been revised downwards materially. Fitch expects the eurozone GDP to contract by 9% in 2020, followed by a rebound of about 5.5% in 2021. It will take nearly three years for the eurozone GDP to return to pre-crisis levels. Similarly, Fitch expects a sharp decline in the Dutch GDP of 5.1% in 2020, followed by a 3.4% recovery in 2021.

BNG Bank is a key funding provider for Dutch public sector institutions that play an important role in addressing the crisis consequences such as healthcare and municipalities. The bank saw overall solid demand for long-term loans from its core customer base and expects to exceed its target of new long-term lending of EUR10 billion in 2020. As in other countries, the pandemic has severely affected the healthcare sector in the Netherlands, but the negative impact has so far been mitigated by government support.

Sovereign Support Assessment

Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance			
Liability structure of bank			
Ownership			
Specifics of bank failure			
Policy banks			
Policy role	✓		
Funding guarantees and legal status		✓	
Government ownership	✓		

Support Assesment Influence

- Higher influence
- Moderate influence
- Lower influence

Extremely High Probability of Support

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. Fitch will, however, continue to factor in Dutch state support into BNG Bank's ratings given the nature of BNG Bank's business and status.

Fitch believes that the Dutch state will act pre-emptively to maintain BNG Bank's viability. In addition, banks are required under the Bank Recovery and Resolution Directive to draw up recovery plans prior to resolution. On the basis of a recovery plan, the relevant resolution authority will draw up a resolution plan. The SRB, a central body, ensures centralised management of the resolution of 'significant banks', including BNG Bank. It makes a resolvability assessment of each bank to evaluate the extent to which a bank is resolvable without public support or central bank liquidity assistance.

Resolution action requires all the following conditions to be met: the institution is failing or likely to fail; failure could not be avoided by a private solution or a supervisory action within reasonable framework; and a resolution is necessary in the public interest to prevent insolvency. If these conditions were met, the SRB would place the entity concerned under resolution and adopt a solution scheme involving resolution measures. Where the bail-in tool is applied as part of a resolution scheme, a minimum level of losses equivalent to 8% of the total liabilities (including own funds) must be imposed on a bank before access can be granted to a resolution fund. At this stage, if resolution has been triggered, senior unsecured creditors may have to share losses.

When the three conditions above that are required to trigger resolution are being considered, public shareholders of a bank may decide to protect their investment. They may do this by taking all necessary measures to restore capitalisation to ensure that the bank they own does not fail. We believe that for BNG Bank, such measures would qualify as "private-sector solution". However, since the shareholders of BNG Bank are public-sector entities, any recapitalisation must be compliant with 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 market conditions in the same way as a private investor would do. This principle is commonly referred to as the "market economy operator test".

The BRRD and the Single Resolution Mechanism do not restrict shareholders' ability to carry out a capital injection under market conforming conditions to protect their investments in a strategic, long-term and viable institution that has yielded healthy returns in the past. The implementation of BRRD into Dutch law also 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 Obligations as Preferred Resolution Strategy

On 27 February 2019, the SRB announced that simplified obligations apply in the case of BNG Bank. Under simplified obligations, the preferred course of action for BNG Bank in the event that it is failing or likely to fail and failure cannot be avoided by a private solution, is insolvency under national law.

The SRB also did not set any explicit minimum requirement for own funds and eligible liabilities or require BNG Bank to build a buffer of bail-in-able debt. 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 because it reduces the risk that the state is prevented from providing support to the bank in a timely manner.

According to 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 insolvency 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 insolvency 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 that 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. The latter could occur, for example, because a capital injection needs to go through a political approval process in the Netherlands or be approved for compliance with EU state-aid rules.

Company Summary

BNG Bank has a long tradition of providing the Dutch public sector with low-cost funding. The bank is owned by the Dutch state (50%) and related public-sector entities (50% by a combination of Dutch provinces and municipalities). Non-public, commercial ownership is forbidden by the bank's articles of association. Although no explicit guarantee exists between the Dutch state and BNG Bank, government involvement in the bank is substantial. We expect the Dutch government to maintain its shareholding.

The customer base consists almost entirely of Dutch local authorities, public-sector utilities and entities involved in social housing, healthcare provision, education and infrastructure projects. BNG Bank also offers several other services including payment services and electronic banking facilities. BNG Bank is involved in a small number of public-private partnerships, some internationally, and is also providing refinancing to banks under the Dutch export credit guarantee scheme.

Important Policy Role in the Netherlands

BNG Bank is the larger of the two Dutch banks with a clear policy role of financing public-sector entities. Fitch believes the Dutch authorities have no intention to merge these two entities as potential cost synergies would be limited. The narrow lending margins that require very low cost of funding make the business economically unattractive for a commercial bank. In 2019, BNG Bank enjoyed market shares of about 67% in lending to the public sector, around 50% in social housing and over 38% in healthcare.

BNG Bank is a statutory two-tier company under Dutch law. Daily management of the bank is undertaken by a three-member executive board. Several supervisory board members are either representatives of the municipalities or former government officials. Senior management turnover has been low.

BNG Bank's main strategic objectives are retaining a substantial market share in the Dutch public- and semi-public-sector long-term financing and at least 90% of its loans need to qualify as promotional. A promotional loan's purpose is to meet public policy objectives. BNG Bank has a return on equity target set by the Ministry of Finance at 3.7% in 2019 (the bank's return on equity was at 3.6% in 2019). This reflects the bank's asset mix and policy role. The management has generally met most of the financial and business objectives.

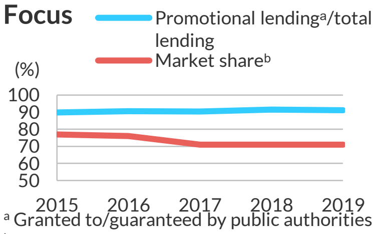
Low Risk Appetite

BNG Bank's very low appetite for credit risk follows from its policy role. Most (93%) loans granted in 2019 were zero risk-weighted (solvency-free) as they were extended either to the Dutch public-sector bodies or benefited from the state's guarantee. The vast majority of loans are extended to government 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-solvency-free loans are mostly extended to public utilities, housing associations and healthcare institutions while non-guaranteed exposures are permitted if they are sufficiently public-sector focused. The bank predominantly lends to Dutch entities and foreign exposure is mostly in the form of interest-bearing securities. The limit on total long-term foreign exposure, excluding derivatives and collateral, is a moderate 15% of total assets (actual exposure was 6.3% at end-June 2020).

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. At end-June 2020, the impact on earnings from a plus-or-minus 100bp gradual parallel shift of the interest-rate curve would have been a low EUR21 million negative / EUR24 million positive. Foreign currency risk arises from substantial funding in foreign currency, while lending is exclusively in euros. The risk is fully hedged through swaps.

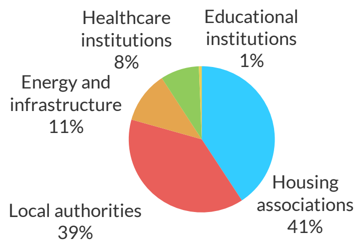
BNG Bank's Public Sector Focus



[a] Granted to/guaranteed by public authorities
[b] In zero risk-weighted long-term lending to core clients
Source: Fitch Ratings, BNG Bank

New Long-Term Lending by Segment

EUR14bn in 2019



Source: Fitch Ratings, BNG Bank

Summary Financials and Key Ratios

	30 Jun 20		31 Dec 19	31 Dec 18	31 Dec 17
	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	252	225	435	434	435
Net fees and commissions	13	12	30	28	23
Other operating income	-11	-10	41	117	185
Total operating income	254	227	506	579	643
Operating costs	58	52	119	118	117
Pre-impairment operating profit	196	175	387	461	526
Loan and other impairment charges	30	27	153	-2	-7
Operating profit	166	148	234	463	533
Other non-operating items (net)	n.a.	n.a.	-7	-4	3
Tax	54	48	64	122	143
Net income	112	100	163	337	393
Other comprehensive income	-119	-106	-87	127	183
Fitch comprehensive income	-7	-6	76	464	576
Summary balance sheet					
Assets					
Gross loans	99,550	88,900	88,608	85,217	86,042
- Of which impaired	456	407	290	57	43
Loan loss allowances	245	219	193	47	34
Net loans	99,305	88,681	88,415	85,170	86,008
Interbank	66	59	66	82	105
Derivatives	35,451	31,658	26,466	19,956	20,795
Other securities and earning assets	22,205	38,690	33,292	30,611	30,085
Total earning assets	157,026	140,227	148,239	135,819	136,993
Cash and due from banks	8,617	7,695	1,272	1,587	2,996
Other assets	21,336	117	178	103	36
Total assets	186,979	166,975	149,689	137,509	140,025
Liabilities					
Customer deposits	6,596	5,890	5,575	5,800	5,417
Interbank and other short-term funding	10,962	9,789	12,403	8,125	11,651
Other long-term funding	131,582	117,505	103,361	98,431	94,955
Trading liabilities and derivatives	30,699	27,415	23,325	19,985	22,814
Total funding	179,839	160,599	144,664	132,341	134,837
Other liabilities	1,702	1,520	138	177	235
Preference shares and hybrid capital	821	733	733	733	733
Total equity	4,617	4,123	4,154	4,258	4,220
Total liabilities and equity	186,979	166,975	149,689	137,509	140,025
Exchange rate		USD1 = EUR0.893017	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, BNG Bank

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	1.9	3.8	4.6
Net interest income/average earning assets	0.3	0.3	0.3	0.3
Non-interest expense/gross revenue	23.2	23.7	20.5	18.3
Net income/average equity	4.9	3.9	8.0	9.8
Asset quality				
Impaired loans ratio	0.5	0.3	0.1	0.1
Growth in gross loans	0.3	4.0	-1.0	-1.8
Loan loss allowances/impaired loans	53.8	66.6	82.5	79.1
Loan impairment charges/average gross loans	0.1	0.2	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	31.0	32.3	32.1	30.0
Tangible common equity/tangible assets	2.5	2.8	3.1	3.0
Basel leverage ratio	3.2	3.6	3.8	3.5
Net impaired loans/common equity Tier 1	n.a.	2.5	0.3	0.3
Funding and liquidity				
Loans/customer deposits	1,509.3	1,589.4	1,469.3	1,588.4
Liquidity coverage ratio	n.a.	158.0	175.0	207.0
Customer deposits/funding	4.4	4.5	5.1	4.8
Net stable funding ratio	n.a.	126.0	133.0	130.0

Source: Fitch Ratings, Fitch Solutions, BNG Bank

Key Financial Metrics – Latest Developments

Resilient Asset Quality to Pandemic Stress

BNG Bank's asset quality is strong owing to its low-risk exposures. We believe that the coronavirus outbreak will have a limited impact on the bank's asset quality metrics. Impaired loans increased slightly to a still healthy 0.5% of gross loans at end-June 2020 as a consequence of one file being migrated from Stage 2 to Stage 3.

Loan impairment charges (LICs) are small and infrequent because the vast majority of loans are extended either to government bodies or to housing associations under the Dutch social housing fund guarantee, ultimately backed by the central government. In 2019, LICs reached an unusual peak of 18bp on average gross loans due to a single borrower that provides services to municipalities. LICs fell to 6bp in 1H20, which is still above the long-term average level due to the deteriorating economic outlook.

The securities portfolio is low risk and almost exclusively investment grade. Exposure to the peripheral eurozone was moderate at EUR1.1 billion at end-June 2020 (around a quarter of its equity) and is being gradually run down.

Low Interest Rate Environment Hurts Profitability

Net interest income is the main driver of BNG Bank's revenue. The bank's net interest margin has been quite narrow at about 30bp-40bp over the last five years, but stable. BNG Bank has an exceptionally low cost of funding due to its high rating and investors' trust in the bank's strong relationship and association with the state. Fitch believes the bank's business model would be barely viable otherwise.

Fitch expects profitability to continue to suffer from low interest rates, although the bank has managed to navigate the low rate environment well so far. Operating efficiency is very strong due to a small staff and as the bank does not have branches. We expect BNG Bank's cost efficiency to remain sound, although increased reporting and other regulatory requirements may inflate expenses.

Strong Capital Ratios

BNG Bank reports solid risk-weighted regulatory capital ratios as it benefits from low risk-weights on its large public-sector loan book. At end-June 2020 the bank's fully-loaded common equity Tier 1 ratio was 31%, well above the internal 22% target. Fitch believes that stricter risk-weighting under Basel III end-game proposals will have limited effect on BNG Bank's capital ratios because the bank uses the standardised approach for calculating risk-weights.

BNG Bank's leverage ratio decreased to 3.2% at end-June 2020 due to a higher denominator, which was partly driven by increased liquidity holdings. The bank has complied with the minimum regulatory leverage ratio of 3% since 2016 owing to profit retention and the issuance of additional Tier 1 instruments being subscribed to by the Dutch provinces (in total EUR733 million). Changes to EU's Capital Requirement Regulation (effective in 2021) will result in the exclusion of promotional loans from the leverage exposure measure. This will have a significant positive effect on BNG Bank's leverage ratio since most of its loans qualify as promotional. Fitch expects the leverage ratio to at least double once the regulation becomes effective.

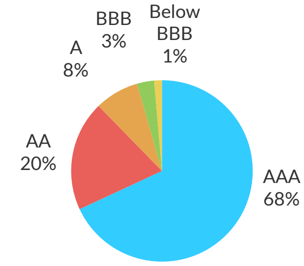
Reliant on Wholesale Funding, Low Refinancing Risk

BNG Bank is reliant on wholesale funding but has maintained access to the capital markets through the cycle, most likely owing to its links to the state and consequently high ratings. The bank strives to diversify its investor base and lower the cost of funding by actively issuing internationally and in various currencies (only around 55% of long-term debt issuance in 2019-2020 was denominated in euros). BNG Bank's debt issues qualify in the EU as Level 1 (highest quality) liquid assets for the purposes of calculating the liquidity coverage ratio (LCR). BNG Bank does not gather retail deposits or issue secured debt.

Refinancing risk is mitigated by prudent liquidity management. In addition to annual refinancing needs of about EUR17-18 billion, the bank's liquidity is sensitive to market movements as it may be required to post additional cash collateral on derivatives used to hedge market risk. Additionally, BNG Bank could use its entire solvency-free loan portfolio as collateral to obtain funding from the ECB, if needed.

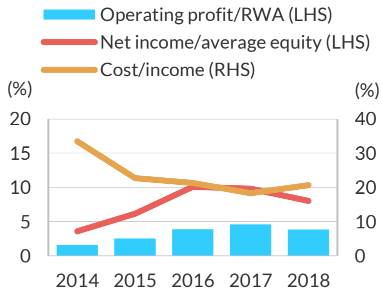
Securities Portfolio

EUR18bn at end-2018



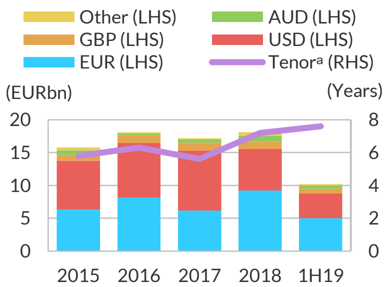
Source: Fitch Ratings, BNG Bank

Profitability Metrics



Source: Fitch Ratings, BNG Bank

Raised Funding by Currency



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

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.