MOODY'S
INVESTORS SERVICE

CREDIT OPINION

2 December 2020

Update

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BNG Bank N.V.

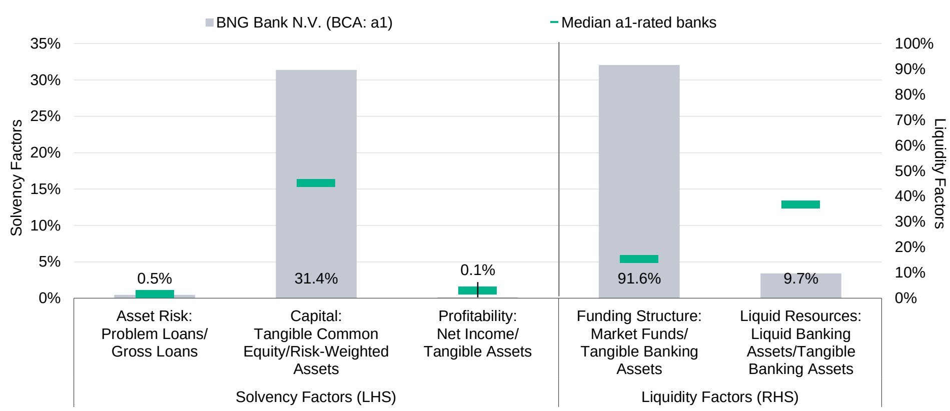
Update to credit analysis

Summary

BNG Bank N.V.'s (BNG Bank) Baseline Credit Assessment (BCA) of a1 reflects the bank's (1) role as the largest lender to the Dutch public sector; (2) entrenched franchise in a niche market, which results in exceptional stability in its fundamentals; (3) very high asset quality because its portfolio is mostly comprised of loans to Dutch public entities; 4) high capitalisation; and (5) adequate funding profile and liquidity position with limited maturity mismatches.

BNG Bank's Aaa deposit and senior unsecured ratings reflect (1) the bank's a1 BCA; (2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift from the bank's Adjusted BCA of a1, given the significant volume of senior unsecured debt; and (3) a two-notch government support uplift, reflecting a very high support probability from the Government of the Netherlands (Aaa stable) because of the bank's public ownership and its role as one of the main providers of financing to the Dutch public sector.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

RATINGS

BNG Bank N.V.

Domicile	The Hague, Netherlands
Long Term CRR	Aaa
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aaa
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aaa
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit strengths

» Largest lender to the Dutch public sector, fully owned by Dutch public entities

» High asset quality, reflected in the very low level of nonperforming loans (NPLs)

» Financial performance commensurate with the bank's public policy role and resilient in the current crisis

» Large volume of senior debt, resulting in the bank's deposit and senior unsecured debt ratings benefiting from a very low loss given failure rate, which results in a two-notch uplift from the BCA

» Very high probability of government support, resulting in a two-notch uplift for the bank's debt and deposit ratings

Credit challenges

» Borrower concentration, given the bank's narrow public policy mandate

» Mismatches between assets and liabilities, mitigated by an ample liquidity portfolio and diverse funding

Outlook

We do not expect any significant change in BNG Bank's creditworthiness in the foreseeable future, as reflected in the stable outlook on the bank's ratings.

Factors that could lead to an upgrade

Upward pressure on BNG Bank's BCA could result from a lower reliance on wholesale funding, which is unlikely given the bank's business model. However, an upgrade of the bank's BCA will not trigger any upgrade of the bank's deposit and senior unsecured ratings, which are already at Aaa.

Factors that could lead to a downgrade

Downward pressure on BNG Bank's BCA could result from (1) a deterioration in the creditworthiness of the Dutch public sector, (2) a significant increase in the bank's non-0% risk-weighted assets, (3) a significant increase in its funding gaps, or (4) a deterioration in its solvency. A downgrade of the BCA could result in a downgrade of all the ratings. BNG Bank's ratings could also be downgraded if the rating of the Dutch government was downgraded.

Key indicators

Exhibit 2
BNG Bank N.V. (Consolidated Financials) [1]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	140,507.0	126,118.0	118,025.0	118,253.0	128,308.0	2.6[4]
Total Assets (USD Million)	157,811.0	141,567.2	134,919.6	141,997.9	135,333.1	4.5[4]
Tangible Common Equity (EUR Million)	3,950.0	3,875.0	3,892.0	3,759.0	3,475.0	3.7[4]
Tangible Common Equity (USD Million)	4,436.5	4,349.7	4,449.1	4,513.8	3,665.3	5.6[4]
Problem Loans / Gross Loans (%)	0.5	0.4	0.1	0.1	0.2	0.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	--	31.4	32.1	32.3	28.2	31.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.8	7.9	1.4	1.5	3.9	4.9[5]
Net Interest Margin (%)	0.3	0.3	0.3	0.3	0.3	0.3[5]
PPI / Average RWA (%)	--	3.0	3.7	4.2	3.4	3.6[6]
Net Income / Tangible Assets (%)	0.1	0.1	0.3	0.3	0.3	0.2[5]
Cost / Income Ratio (%)	26.1	24.7	21.4	18.8	21.5	22.5[5]
Market Funds / Tangible Banking Assets (%)	92.2	91.6	90.7	91.0	90.4	91.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.9	9.7	10.8	14.6	17.2	13.3[5]
Gross Loans / Due to Customers (%)	1509.3	1586.9	1466.9	1588.4	1159.4	1462.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Founded in 1914 and headquartered in The Hague, BNG Bank is a Dutch credit institution specialised in lending to (semi-)publicly owned institutions.

BNG Bank has no branches and does not provide financing to private customers. The bank's clients are mainly local authorities and public-sector institutions in the areas of housing, healthcare, education and public utilities.

The bank's shareholders are exclusively Dutch public authorities; 50% of the bank's shares are held by the Dutch State and the remaining 50% are held by municipal authorities, provincial authorities and a district water board.

Recent Developments

The Dutch government has implemented a support package in response to the coronavirus disruption, which includes loan guarantees for small and medium-sized enterprises, tax payment deferrals, extraordinary compensation of labour costs for entrepreneurs (under certain circumstances) and one-off payments for the hardest hit industries, thereby supporting corporate borrowers and keeping unemployment low. In H1 2020, BNG Bank offered a moratorium to clients with loans of less than €2.5 million. This moratorium resulted in only €7.4 million of payment holidays attributed to 21 customers, compared to the bank's loan book of €89 billion.

Detailed credit considerations

BNG Bank is the largest lender to the Dutch public sector and is fully owned by Dutch public entities

BNG Bank's bylaws restrict its ownership to the Dutch public sector. This ownership structure has been stable since 1925 and is unlikely to change, given the bank's mandate to act as a lender to the Dutch public sector. The bank's long-term loan portfolio was €85.4 billion as of end-June 2020, up €1.2 billion from year-end 2019 as a result of the higher demand for credit from municipalities following the coronavirus outbreak. Total new long-term lending amounted to €5.4 billion in the first half of 2020 (€0.8 billion lower than in the first half of 2019). Despite the major impact of the crisis on the healthcare sector, the support provided by the state and health insurers limited the negative effect on BNG Bank.

The bank's market share of lending to local governments, housing associations and healthcare institutions (core clients) was 71% in terms of long-term lending production in 2019 (stable compared with that in 2018). We expect the bank to maintain its position in the Dutch public-sector financing business given its mandate, ownership and advantageous funding costs compared with those of commercial banks.

As a bank established with an explicit public policy mandate, BNG Bank benefits from an entrenched franchise in a niche market. These conditions may result in exceptional stability in terms of asset quality, capital and profitability, supporting the bank's ongoing operating performance and resulting in a very low risk profile. BNG Bank is also relatively insulated from a prolonged economic slowdown which may arise from the coronavirus outbreak. This feature is reflected in a qualitative positive adjustment of one notch in our scorecard.

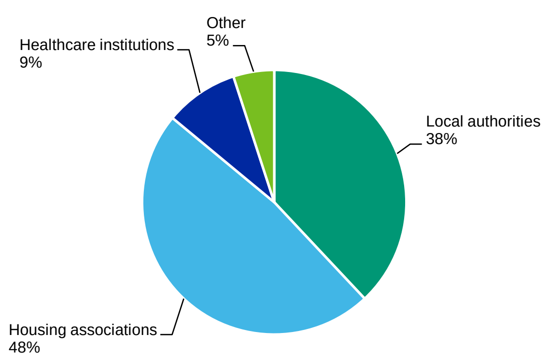
High asset quality, reflected in the very low level of NPLs

Despite market volatility, BNG Bank has consistently been able to lend to the Dutch public sector at advantageous rates, given the bank's low funding costs compared with those of commercial banks. The bank's narrow public policy mandate translates into concentrations in its loan portfolio. However, these concentrations mainly relate to Dutch local governments and housing associations that benefit from guarantees on their liabilities from the central government (€90.4 billion as of June 2020, including off-balance-sheet exposures). Therefore, they do not entail any capital charge. The bank has also started export refinancing activities under the central government's export credit guarantee.

A small share (9% of the long-term loan book, as of year-end 2019) of the bank's lending is subject to a capital charge. These exposures consist of loans, for example, to public-private partnerships. Concentration risks in such loans are modest and volumes are closely monitored. The bank does not intend to increase the share of such loans in the foreseeable future. Nonetheless, this portfolio was responsible for loan-loss provisions of €153 million in 2019, essentially linked to one weak counterparty who provides services to municipalities. As a result, loan-loss charges represented 18 basis points (bps) of average gross loans in 2019 versus none in 2018. Loan-loss charges were €27 million in H1 2020, which represented an annualised 6 bps of average gross loans.

The bank's NPLs totaled €407 million as of 30 June 2020, representing 0.46% of its loans and advances, up from 0.36% as of year-end 2019 as a result of the coronavirus crisis but still low, which reflects its high asset quality.

Exhibit 3
Breakdown of long-term loan portfolio
As of June 2020



Source: Bank report

BNG Bank's securities portfolio (€19.1 billion as of 30 June 2020) mainly consists of highly rated securities. The portfolio is primarily invested in government debt, bonds with government guarantees and covered bonds. As of 30 June 2020, this portfolio was mainly composed of securities rated from Aaa to A (97%) and securities in the Baa range (1.6%). Non-investment-grade securities only represent 1.1% of the portfolio. BNG Bank's overall exposures to the weaker European sovereigns[1] through both its loan and securities portfolios amounted to €1.1 billion as of the end of June 2020, down from €1.3 billion as of year-end 2019. Exposures were primarily in the form of covered bonds and residential mortgage-backed securities.

These factors result in an Asset Risk score of aa1.

Strong capital in view of low-risk lending activity

BNG Bank's capitalisation is commensurate with its low-risk assets. The bank's Common Equity Tier 1 capital ratio was 31% as of 30 June 2020, compared with the regulatory requirement of 10.25% for 2020[2]. The bank's Tier 1 capital includes €733 million of Additional Tier 1 capital securities issued in 2015 and 2016.

As of 30 June 2020, BNG Bank's Tier 1 leverage ratio was 3.2% (2019: 3.6%), above the minimum regulatory requirement of 3%. The ratio was negatively affected by the increase in the balance sheet (+12%) resulting from higher asset valuations and the bank's decision to maintain higher liquidity buffers in this period of crisis.

On 16 April 2019, the European Parliament adopted an amended Capital Requirement Regulation (CRR II) applying to financial institutions in the EU, which states that public development institutions' exposures to regional governments, local authorities or public-sector entities in relation to public-sector investments are excluded from the denominator of the leverage ratio. As a result, the bank's leverage ratio will improve substantially from mid-2021.

BNG Bank's financial performance is in line with the bank's public policy role

Like other government-related specialised lenders, BNG Bank must generate sufficient profit to grow its capital in line with its loan portfolio and comply with regulatory capital requirements. However, the bank must also balance out this capital growth and profit objectives with the provision of efficient, low-cost funding to local governments and related public sectors.

While we expect increasing expenses, driven by regulation, to continue to constrain BNG Bank's profitability, the bank's business model, dominant position in the market and close relationships with its clients (who are also its shareholders) will continue to provide it with sufficient flexibility in setting up margins, thereby preserving the necessary level of profit. BNG Bank's net interest margin has been consistently in the 30-40 bps range. BNG Bank's net interest margin was stable at 30 bps in June 2020.

Like most other specialised lenders, BNG Bank's costs are low relative to its total assets. The bank's cost-to-income ratio was however up to 26.1% in June 2020 from 21.4%, including regulatory costs, as a result of increasing IT expenses and the hiring of external support in relation to the necessary adaptation of the bank to home working in the context of Covid-19.

These factors are reflected in the bank's Profitability score of ba1.

Funding profile and liquidity are adequate

BNG Bank is almost entirely wholesale funded and, therefore, relies on capital markets for its financing. The bank deploys a diversified funding strategy by issuing debt in multiple currencies and markets, with the aim of reaching out to a wide array of investors. BNG Bank's asset and liability management entails some maturity mismatches. The bulk of outstanding funding has remaining maturities in the range of one to five years, whereas a greater proportion of assets have maturities remaining above five years. Maturity mismatches could have negative implications for the bank's interest margins (whereby the bank's spreads would rise significantly for a prolonged period and imply an increase in the refinancing cost of outstanding loans).

Liquidity risk is managed through euro commercial paper and US dollar commercial paper programmes, and the coverage of gaps by a comfortable liquidity buffer (constituting highly liquid assets - eligible to the liquidity coverage ratio - worth €12.2 billion as of 30 June 2020). The bank also has an immediate drawing capacity of €10 billion, collateralised by public-sector loans (pre-pledged) at the European Central Bank as of June 2020. Most of BNG Bank's loan book can be used as collateral for central bank funding. Additionnally, BNG participated in the TLTRO III launched by the ECB following the coronavirus outbreak.

The funding gaps are maintained within reasonable limits in view of BNG Bank's good standing in the capital markets. As bonds issued by a promotional bank (an institution where lending to the public sector represents more than 90% of total loans), the securities issued by BNG Bank are classified as "level 1" category assets (the highest quality of the High-Quality Liquid Assets of the "Liquidity Coverage Ratio"). BNG Bank's bonds are also eligible for the European Central Bank's public-sector purchase programme aimed at stimulating the economy. These measures have further enhanced financial institutions' appetite for the bank's securities. As of year-end 2019, BNG Bank's liquidity coverage ratio was 158% and its net stable funding ratio was 126%, in compliance with the European Union (EU) prudential requirements.

These factors are reflected in the bank's Combined Liquidity score of baa2.

Environmental, social and governance considerations

In terms of environmental considerations, BNG Bank has a low exposure to environmental risks, in line with our general view for the banking sector. See our Environmental risk heat map for further information. Environmental risks to banks are usually indirect, undertaken through financing clients' operations. Such risk exposure is usually unlikely to translate into a significant credit impact. However, BNG Bank finances local authorities and housing associations which are naturally exposed to environmental risks in the Netherlands, a country particularly sensitive to rising sea levels.

For social risks, we also place BNG Bank in line with our general view for the banking sector, which indicates a moderate exposure to social risks. The rapid and widening spread of the coronavirus outbreak and deteriorating global economic outlook are also creating a severe and extensive shock across many sectors, regions and markets, affecting banks' business and performance. See our Social risk heat map for further information.

Corporate governance is highly relevant to all banks' creditworthiness. Governance risks are largely internal rather than externally driven. We do not have any particular concern about BNG Bank's governance.

Support and structural considerations

Loss Given Failure (LGF) analysis

Despite its ownership and public mandate, BNG Bank falls in the scope of the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an operational resolution regime. Nonetheless, the Single Resolution Board (SRB) announced on 27 February 2019 that simplified obligations apply to BNG Bank and that the preferred resolution strategy was normal insolvency law - liquidation- rather than bail-in. Based on the current SRB guidelines, the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) would be restricted to the loss-absorption amount, consisting of the sum of Pillar 1 requirement, Pillar 2 requirement and the combined buffer requirement (10.25% of RWAs).

We assume residual tangible common equity of the lower of the current amount and 3%, post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. The proportion of deposits considered junior is 26%. These are in line with our standard assumptions. The low-trigger Additional Tier 1 securities of the bank are incorporated in the LGF analysis under the heading "Preference shares (bank)" in Exhibit 4.

Our LGF analysis indicates a very low loss given failure for the bank's deposits and senior unsecured debt, leading to a two-notch uplift to the bank's Adjusted BCA.

Government support considerations

Despite the limitations on government support embedded in the BRRD, the scope of which includes BNG Bank, we expect a very high probability of government support for the bank's deposits and senior unsecured debt, resulting in a two-notch uplift for both debt classes. Because of the bank's ownership and public policy mission, the probability of receiving government support is considerably greater than that of commercial banks.

The very high support assumptions include the support that would come (1) from the Dutch public sector (including the central government) acting as the shareholder of the bank, and (2) from the government stepping in to address systemic risks. BNG Bank was designated as a domestic systemically important bank in 2015.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

BNG Bank's CR Assessment is positioned at Aaa(cr)/P-1(cr)

The CR Assessment, before government support, is positioned three notches above the Adjusted BCA of a1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss; therefore, we focus purely on subordination and take no account of the volume of the instrument class.

The CR Assessment also benefits from one notch of systemic support. This reflects our view that any support provided by governmental authorities to a bank that benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going concern to reduce contagion and preserve a bank's critical functions.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 4

BNG Bank N.V.

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.5%	aa1	↔	aa1	Quality of assets	Long-run loss performance
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	31.4%	aa1	↔	aa1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.1%	b3	↔	ba1	Earnings quality	
Combined Solvency Score		a1		aa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	91.6%	caa3	↔	baa3	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	9.7%	ba2	↔	a3	Additional liquidity resources	
Combined Liquidity Score		b3		baa2		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				1		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				aa3 - a2		
Assigned BCA				a1		
Affiliate Support notching				0		
Adjusted BCA				a1		

Balance Sheet	in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure
Other liabilities	12,904	10.2%	13,472	10.7%
Deposits	5,575	4.4%	5,006	4.0%
Preferred deposits	4,126	3.3%	3,919	3.1%
Junior deposits	1,450	1.1%	1,087	0.9%
Senior unsecured bank debt	103,328	81.9%	103,328	81.9%
Dated subordinated bank debt	33	0.0%	33	0.0%
Preference shares (bank)	733	0.6%	733	0.6%
Equity	3,545	2.8%	3,545	2.8%
Total Tangible Banking Assets	126,118	100.0%	126,118	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	86.2%	86.2%	86.2%	86.2%	3	3	3	3	0	aa1
Counterparty Risk Assessment	86.2%	86.2%	86.2%	86.2%	3	3	3	3	0	aa1 (cr)
Deposits	86.2%	3.4%	86.2%	85.3%	2	3	2	2	0	aa2
Senior unsecured bank debt	86.2%	3.4%	85.3%	3.4%	2	2	2	2	0	aa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa1	1	Aaa	Aaa
Counterparty Risk Assessment	3	0	aa1 (cr)	1	Aaa(cr)	
Deposits	2	0	aa2	2		Aaa
Senior unsecured bank debt	2	0	aa2	2	Aaa	Aaa

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
BNG BANK N.V.	
Outlook	Stable
Counterparty Risk Rating	Aaa/P-1
Bank Deposits	Aaa/P-1
Baseline Credit Assessment	a1
Adjusted Baseline Credit Assessment	a1
Counterparty Risk Assessment	Aaa(cr)/P-1(cr)
Issuer Rating	Aaa
Senior Unsecured	Aaa
Commercial Paper	P-1

Source: Moody's Investors Service

Endnotes

1 Italy, Portugal and Spain.

2 This ratio includes a 4.5% Pillar 1 requirement, a 2.25% Pillar 2 requirement, a 1% systemic risk buffer and a 2.5% capital conservation buffer.

REPORT NUMBER 1253198

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